

# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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## ASIA ORIENT HOLDINGS LIMITED

(滙漢控股有限公司)\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 214)

**PROPOSED RIGHTS ISSUE OF  
NOT LESS THAN 127,278,986 RIGHTS SHARES  
AND NOT MORE THAN 134,764,986 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$1.30 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF ONE RIGHTS SHARE  
FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE);  
APPLICATION OF WHITEWASH WAIVER AND  
REFRESHMENT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

Financial adviser to Asia Orient Holdings Limited



Independent financial adviser to the Independent Board Committee and the Independent Shareholders



Underwriters



MR. POON JING

A letter of advice from the independent financial adviser, VC Capital, to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 53 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 30 to 31 of this circular.

It should be noted that the last day of dealings in Shares on a cum-rights basis is 10 March 2006. The Shares will be dealt with on an ex-rights basis from 13 March 2006.

To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be 21 March 2006. In order to be registered as a member of the Company on the Record Date, any transfers of Shares (with the relevant share certificates) must be lodged to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, for registration by 4:00 p.m. on 14 March 2006.

A notice convening a special general meeting of the Company to be held at 10:00 a.m. on 21 March 2006 at Basement 1, Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong is set out on pages 150 to 153 of this circular. A form of proxy is also enclosed. Whether or not you are able to attend and vote at the special general meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the principal office of the Company in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the meeting or any adjourned meeting, should you so wish.

The Underwriting Agreement contains provisions granting Tai Fook Securities, by notice in writing, the right to terminate the Underwriters' obligations thereunder on the occurrence of certain events. Tai Fook Securities may terminate the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:

- (a) in the absolute opinion of Tai Fook Securities acting in good faith, the success of the Rights Issue would be materially and adversely affected by:
- (i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of Tai Fook Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (ii) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, financial, economic currency, market or other nature (whether or not *ejusdem generis* with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may in the absolute opinion of Tai Fook Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
  - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would in the absolute opinion of Tai Fook Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (v) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
  - (vi) the commencement by any third party of any litigation or claim against any member of the Group which is or might be material to the Group taken as a whole; or
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the Group or any member of the Group and a change in currency conditions for the purpose of the Underwriting Agreement includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of Tai Fook Securities makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (c) this circular or the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which in the absolute opinion of Tai Fook Securities is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

If the Underwriting Agreement is terminated by Tai Fook Securities before the aforesaid deadline or does not become unconditional, the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriters shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

Pursuant to the Underwriting Agreement, Tai Fook Securities is entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Tai Fook Securities; or
- (b) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material aspect comes to the knowledge of Tai Fook Securities.

Any such notice shall be served by Tai Fook Securities prior to the Latest Time for Termination.

\* For identification purpose only

3 March 2006

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# CONTENTS

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	<i>Page</i>
<b>Expected timetable for the Rights Issue</b> .....	ii
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	5
<b>Letter from the Independent Board Committee</b> .....	30
<b>Letter from VC Capital</b> .....	32
<b>Appendix I — Financial information on the Group</b> .....	54
<b>Appendix II — Unaudited pro forma financial information of the Group</b> .....	123
<b>Appendix III — General information</b> .....	126
<b>Appendix IV — Explanatory statement</b> .....	147
<b>Notice of the SGM</b> .....	150

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## EXPECTED TIMETABLE FOR THE RIGHTS ISSUE

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*Set out below is an indicative timetable for the implementation of the Rights Issue. The timetable is subject to change in accordance with the agreement between the Company and Tai Fook Securities. The Company will inform the Shareholders of any changes to the expected timetable as and when appropriate. All times and dates in this circular refer to Hong Kong local times and dates.*

2006

Last day of dealings in Shares on a cum-rights basis	10 March
First day of dealings in Shares on an ex-rights basis	13 March
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:00 p.m. on 14 March
Register of members of the Company closes (both dates inclusive)	15 March to 21 March
Latest time for lodging proxy forms for the SGM ( <i>Note 1</i> )	10:00 a.m. on 19 March
SGM	10:00 a.m. on 21 March
Record Date	21 March
Despatch of the Rights Issue Documents	22 March
Announcement of results of the SGM	22 March
Register of members re-opens	22 March
First day of dealings in nil-paid Rights Shares	24 March
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on 28 March
Last day of dealings in nil-paid Rights Shares	31 March
Latest time for payment and acceptance of Rights Shares and applications for excess Rights Shares ( <i>Note 2</i> )	4:00 p.m. on 6 April
Latest time for the Rights Shares to become unconditional	4:00 p.m. on 10 April
Announcement of results of acceptance of and excess applications for the Rights Shares appear on newspapers	12 April

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## EXPECTED TIMETABLE FOR THE RIGHTS ISSUE

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Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before . . . . .	13 April
Despatch of certificates for fully-paid Rights Shares on or before . . . . .	13 April
Commencement of dealings in fully-paid Rights Shares . . . . .	19 April

*Notes:*

1. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the SGM should they so wish.
2. Effect of bad weather on the latest time for acceptance of and payment for the Rights Shares

The latest time for acceptance of and payment for Rights Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the offer of the Rights Shares. Instead the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take place on the expected latest date for acceptance of the offer of the Rights Shares, the dates mentioned in this section may be affected. A press announcement will be made by the Company in such event.

**It should be noted that the Underwriting Agreement contains provisions granting Tai Fook Securities, by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed “Termination of the Underwriting Agreement” on pages 18 to 20 of this circular. If the Underwriting Agreement is terminated by Tai Fook Securities or does not become unconditional, the Rights Issue will not proceed.**

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## DEFINITIONS

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

“AGM”	the annual general meeting of the Company held on 26 August 2005
“Announcement”	the announcement dated 10 February 2006 in relation to the Rights Issue and the Whitewash Waiver
“associate”	has the meaning ascribed to it under Chapters 1 and 14A of the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which banks generally are open for business in Hong Kong
“Bye-Laws”	the bye-laws of the Company
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Asia Orient Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Current Share Issue Mandate”	the mandate to allot and issue Shares granted to the Directors pursuant to a resolution of the Shareholders adopted at the AGM
“Current Share Repurchase Mandate”	the mandate to repurchase Shares granted to the Directors pursuant to a resolution of the Shareholders adopted at the AGM
“Director(s)”	the director(s) of the Company
“Excluded Shareholders”	the Overseas Shareholders whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares to such Shareholders on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates
“General Mandates”	the New Share Issue Mandate and the New Share Repurchase Mandate
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

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## DEFINITIONS

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“HKSCC”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	a committee of the Board comprising the independent non-executive Directors, namely Mr. Cheung Kwok Wah Ken, Mr. Hung Yat Ming and Mr. Wong Chi Keung, which has been formed to advise the Independent Shareholders in relation to the Whitewash Waiver
“Independent Shareholders”	Shareholders other than (1) Mr. Poon and parties acting in concert with him; and (2) those who are involved in or interested in the Underwriting Agreement and the Whitewash Waiver
“Last Trading Date”	7 February 2006, being the last trading day of the Shares prior to the publication of the Announcement
“Latest Acceptance Time”	4:00 p.m. on 6 April 2006 or such later time as may be agreed between the Company and Tai Fook Securities, being the latest time for acceptance of the offer of the Rights Shares and if there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day at any time between 12:00 noon and 4:00 p.m., the Latest Acceptance Time will be postponed to the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.
“Latest Practicable Date”	1 March 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Latest Time for Termination”	4:00 p.m. on the second Business Day after the Latest Acceptance Time
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Poon”	Mr. Poon Jing, an executive Director
“New Share Issue Mandate”	the new mandate proposed to be granted to the Directors to allot and issue Shares as set out in the notice of the SGM
“New Share Repurchase Mandate”	the new mandate proposed to be granted to the Directors to repurchase Shares as described in the explanatory statement set out in appendix IV to this circular
“Outstanding Options”	the options granted by the Company to subscribe for an aggregate of 14,972,000 Shares pursuant to the Share Option Scheme, which were outstanding as at the Latest Practicable Date
“Overseas Shareholder(s)”	the Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong

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## DEFINITIONS

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“parties acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Placing Agreement”	the placing agreement dated 11 January 2006 entered into between Get Nice Investment Limited as placing agent and Mr. Poon in relation to the placing through Get Nice Investment Limited of 16,000,000 existing Shares beneficially owned by Mr. Poon at HK\$1.85 per Share, details of which were set out in the announcement of the Company dated 11 January 2006
“PRC”	the People’s Republic of China, which for the purpose of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Excluded Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	21 March 2006
“Rights Issue”	the proposed issue of the Rights Shares by the Company on the basis of one Rights Share for every two existing Shares to the Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the issue
“Rights Issue Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Rights Share(s)”	not less than 127,278,986 new Shares and not more than 134,764,986 new Shares to be issued by the Company pursuant to the Rights Issue
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held for the purpose of considering the Whitewash Waiver and the refreshment of the General Mandates
“Share(s)”	the ordinary shares which have a par value of HK\$0.10 each in the capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 11 November 2002
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Subscription Monies”	the subscription monies payable by the Underwriters to the Company in respect of the Rights Shares underwritten by the Underwriters
“Subscription Price”	subscription price of HK\$1.30 per Rights Share
“Tai Fook Securities”	Tai Fook Securities Company Limited, a licensed corporation to carry on types 1 (dealing in securities), 3 (leveraged foreign exchange trading) and 4 (advising on securities) regulated activities for the purpose of the SFO
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Top-Up Subscription”	the subscription by Mr. Poon for a total of 16,000,000 new Shares at HK\$1.85 per Share as announced on 11 January 2006
“Top-Up Subscription Agreement”	the subscription agreement dated 11 January 2006 entered into between Mr. Poon and the Company in relation to the Top-Up Subscription, details of which were set out in the announcement of the Company dated 11 January 2006
“Underwriters”	Mr. Poon Jing, an executive Director, and Tai Fook Securities
“Underwriting Agreement”	the underwriting agreement dated 8 February 2006 entered into between the Company and the Underwriters in relation to the Rights Issue (as supplemented by the letter dated 10 February 2006 entered into by the same parties amending certain definitions and the expected timetable of the Rights Issue)
“U.S.”	United States of America
“VC Capital”	VC Capital Limited, a licensed corporation to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Whitewash Waiver”	a waiver from the obligation of Mr. Poon and parties acting in concert with him to make a mandatory offer under Rule 26 of the Takeovers Code as a result of the performance of his underwriting obligation pursuant to the Underwriting Agreement
“%”	per cent.





**ASIA ORIENT HOLDINGS LIMITED**

**(滙漢控股有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 214)**

*Directors:*

Mr. Fung Siu To Clement (*Chairman*)  
Mr. Lim Yin Cheng (*Deputy chairman*)  
Mr. Poon Jing (*Managing Director and chief executive*)  
Mr. Lun Pui Kan  
Mr. Kwan Po Lam Phileas

*Non-executive Director:*

Mr. Chan Sze Hung

*Independent non-executive Directors:*

Mr. Cheung Kwok Wah Ken  
Mr. Hung Yat Ming  
Mr. Wong Chi Keung

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Principal Office in Hong Kong:*

30th Floor  
Asia Orient Tower  
Town Place  
33 Lockhart Road  
Wanchai  
Hong Kong

3 March 2006

*To the Shareholders and, for information only, the holders of the Outstanding Options*

Dear Sirs,

**PROPOSED RIGHTS ISSUE OF  
NOT LESS THAN 127,278,986 RIGHTS SHARES  
AND NOT MORE THAN 134,764,986 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$1.30 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF ONE RIGHTS SHARE  
FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE);  
APPLICATION OF WHITEWASH WAIVER AND  
REFRESHMENT OF GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

**INTRODUCTION**

On 10 February 2006, the Board announced that the Company proposed to raise not less than approximately HK\$165 million before expenses by issuing not less than 127,278,986 Rights Shares

\* For identification purpose only

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## LETTER FROM THE BOARD

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and to raise not more than approximately HK\$175 million before expenses by issuing not more than 134,764,986 Rights Shares at the Subscription Price of HK\$1.30 per Rights Share on the basis of one Rights Share for every two existing Shares in issue on the Record Date.

The Rights Issue will be fully underwritten by the Underwriters, on the terms and subject to the conditions set out in the Underwriting Agreement. As at the Latest Practicable Date, one of the Underwriters, Mr. Poon, and parties acting in concert with him were together beneficially interested in 80,649,736 Shares, representing approximately 31.7% of the issued share capital of the Company. Pursuant to the Underwriting Agreement, Mr. Poon has undertaken, and has undertaken that he will procure parties acting in concert with him to undertake, that such 80,649,736 Shares will remain beneficially owned by them and that they will continue to have registered addresses in Hong Kong up to the Record Date, and Mr. Poon and parties acting in concert with him will accept on or before the Latest Acceptance Time, and pay for, such number of Rights Shares to be provisionally allotted to them or their respective nominee pursuant to the Rights Issue in respect of their or their respective nominees' existing holding of 80,649,736 Shares. As at the Latest Practicable Date, Mr. Fung Siu To Clement, being one of the parties acting in concert with Mr. Poon, was interested in the Outstanding Options attaching thereto subscription rights to subscribe for 1,718,000 Shares. Mr. Poon has also undertaken to procure Mr. Fung Siu To Clement, to undertake to subscribe or procure subscribers for 859,000 Rights Shares to be provisionally allotted to him in respect of 1,718,000 Shares which will be issued to him if he exercises on or before the Record Date all such Outstanding Options held by him.

The Rights Issue is conditional upon the fulfillment or waiver of the conditions set out under the paragraph headed "Conditions of the Rights Issue" below. In particular, it is subject to the Underwriting Agreement not being terminated in accordance with its terms (see the paragraph headed "Termination of the Underwriting Agreement" below). If Tai Fook Securities terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived, the Rights Issue will not proceed.

The Independent Board Committee comprising the three independent non-executive Directors, namely, Mr. Cheung Kwok Wah Ken, Mr. Hung Yat Ming and Mr. Wong Chi Keung, has been established to advise the Independent Shareholders regarding the Whitewash Waiver. Mr. Chan Sze Hung, the non-executive Director, is a consultant of a law firm which provides legal services to the Company from time to time and is not considered to be independent under the Takeovers Code so far as the Whitewash Waiver is concerned and is therefore excluded as a member of the Independent Board Committee. VC Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Whitewash Waiver are fair and reasonable and whether the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole. The appointment of VC Capital as the independent financial adviser has been approved by the Independent Board Committee.

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## LETTER FROM THE BOARD

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Conditional upon the completion of the Rights Issue, the Company proposes to (i) refresh the Current Share Repurchase Mandate by the grant of the New Share Repurchase Mandate, taking into account the total issued share capital of the Company as enlarged by the Rights Issue; and (ii) refresh the Current Share Issue Mandate by the grant of the New Share Issue Mandate so that immediately after completion of the Rights Issue, the amount in percentage term of the New Share Issue Mandate is the same as the amount in percentage term of the unused part of the Current Share Issue Mandate immediately before completion of the Rights Issue.

The purpose of this circular is to give you further information on, among other things, details of the Rights Issue, the Whitewash Waiver and the refreshment of the General Mandates, and to give you notice of the SGM. This circular also contains the recommendation of the Independent Board Committee and the advice of VC Capital in respect of the Whitewash Waiver.

### PROPOSED RIGHTS ISSUE

#### Issue statistics

Basis of the Rights Issue:	One Rights Share for every two existing Shares held on the Record Date
Number of existing Shares in issue as at the Latest Practicable Date:	254,557,972 Shares
Number of Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date):	127,278,986 Rights Shares
Outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date:	Outstanding Options attaching thereto subscription rights to subscribe for 14,972,000 Shares
Maximum number of Rights Shares:	Assuming all Outstanding Options are exercised on or before the Record Date, the number of Shares in issue will be increased to 269,529,972 Shares and the number of Rights Shares will be increased to 134,764,986 Rights Shares

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## LETTER FROM THE BOARD

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Number of Rights Shares that Mr. Poon has undertaken, and has undertaken to procure parties acting in concert with him to undertake, to take up:

Mr. Poon has undertaken, and has undertaken to procure parties acting in concert with him to undertake, that 80,649,736 Shares beneficially owned by Mr. Poon and parties acting in concert with him will remain beneficially owned by them and that they will continue to have registered addresses in Hong Kong up to the Record Date, and Mr. Poon and parties acting in concert with him will accept on or before the Latest Acceptance Time, and pay for, such number of Rights Shares to be provisionally allotted to them or their respective nominee pursuant to the Rights Issue in respect of their or their respective nominees' existing holding of 80,649,736 Shares. Mr. Poon has also undertaken to procure Mr. Fung Siu To Clement, one of the parties acting in concert with Mr. Poon, to undertake to subscribe or procure subscribers for 859,000 Rights Shares to be provisionally allotted to him in respect of 1,718,000 Shares which will be issued to him if he exercises on or before the Record Date all the Outstanding Options attaching thereto subscription rights to subscribe for 1,718,000 Shares held by him

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represented 50% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 33.3% of the enlarged issued share capital of the Company immediately following the completion of the Rights Issue assuming that no Outstanding Options are exercised on or before the completion of the Rights Issue.

The number of Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional new Shares which may be allotted and issued pursuant to the exercise of the Outstanding Options on or before the Record Date. As at the Latest Practicable Date, there were Outstanding Options attaching thereto subscription rights to subscribe for an aggregate of 14,972,000 Shares. If all the subscription rights attaching to all such Outstanding Options are duly exercised and Shares are issued and allotted pursuant to such exercise on or before the Record Date, the number of issued Shares is expected to be increased to 269,529,972 Shares and the number of Rights Shares that may be issued pursuant to the Rights Issue is expected to be increased to 134,764,986 Rights Shares. Other than the Outstanding Options, the Company had no derivatives, options, warrants, conversion rights or other similar rights which were convertible or exchangeable into Shares as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### Subscription Price

The Subscription Price for the Rights Shares is HK\$1.30 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price:

- represents a discount of approximately 38.8% to the closing price of HK\$2.125 per Share as quoted on the Stock Exchange on the Last Trading Date;
- represents a discount of approximately 38.1% to the average closing price of HK\$2.1 per Share for the five consecutive trading days up to and including the Last Trading Date;
- represents a discount of approximately 37.6% to the average closing price of HK\$2.085 per Share for the 10 consecutive trading days up to and including the Last Trading Date;
- represents a discount of approximately 29.7% to the theoretical ex-rights price of HK\$1.85 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Date;
- represents a discount of approximately 79.5% to the unaudited adjusted consolidated net tangible assets value per Share of approximately HK\$6.334 (calculated by dividing the latest published unaudited net tangible assets value of the Group as at 30 September 2005 adjusted for the net proceeds of the top-up subscription announced by the Company on 11 January 2006 by the 254,557,972 Shares in issue as at the Latest Practicable Date); and
- represents a discount of approximately 33.0% to the closing price of HK\$1.94 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the then market environment, prevailing Share prices and recent financial conditions of the Group, which the Directors consider are important for the Shareholders to assess before subscribing for the Rights Shares. In order to enhance the attractiveness of a rights issue, it is a common practice for listed issuers to issue rights shares at a discount to the market price (as evidenced in a majority of rights issues conducted in the past six months). Given the underwriting period of a rights issue is relatively long and after considering the aforesaid and the theoretical ex-rights price per Share (which takes into account the allotment ratio of the Rights Issue), the Directors consider that the discount on the Subscription Price to the current market price of the Shares as proposed is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date. The Directors consider the Subscription Price to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **Status of the Rights Shares**

The Rights Shares, when allotted, issued and fully-paid, will rank pari passu with the then existing Shares in issue on the date of allotment of such Rights Shares in fully-paid form. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared after the date of allotment and issue of the Rights Shares.

### **Fractions of the Rights Shares**

The Company will not provisionally allot fractions of Rights Shares in nil-paid form. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and, if a premium (net of expenses) can be achieved, the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be made available for excess application.

### **Application for excess Rights Shares**

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders and any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders.

Applications may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis taking into account the number of excess Rights Shares applied for, the existing shareholding of Shareholders, the board lot size of Shares and suspicious multiple applications (if any).

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

For Shareholders whose Shares are held by their nominee(s) and would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the branch share registrar of the Company in Hong Kong for completion of the relevant registration by 4:00 p.m. on 14 March 2006.

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## LETTER FROM THE BOARD

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### **Share certificates for the Rights Shares**

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to Qualifying Shareholders who have accepted and applied for (where appropriate) and paid for the Rights Shares on or before 13 April 2006 at their own risk.

### **Qualifying Shareholders**

The Company will send (i) the Rights Issue Documents to the Qualifying Shareholders; and (ii) the Prospectus, for information only, to the Excluded Shareholders. To qualify for the Rights Issue, Shareholders must be registered as a member of the Company on the Record Date and holders of the Outstanding Options (i) must exercise their respective subscription rights in accordance with the relevant procedures specified in the rules of the Share Option Scheme (as regards the holders of the Outstanding Options) on or before the Record Date; (ii) must be registered as the holders of the Shares allotted pursuant to the exercise of the subscription rights thereof on or before the Record Date; and (iii) must not be an Excluded Shareholder.

In order to be registered as a member of the Company on the Record Date, the Shareholders must lodge any transfers of Shares (with the relevant Share certificate(s)) with the Company's branch share registrar in Hong Kong by 4:00 p.m. on 14 March 2006. The last day of dealings in Shares on a cum-rights basis is therefore expected to be 10 March 2006. The Shares will be dealt with on an ex-rights basis from 13 March 2006.

The Company's branch share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited at Room Nos. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

It is intended that the Company's register of members will be closed from 15 March 2006 to 21 March 2006, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

### **Excluded Shareholders**

The Company will only send the Prospectus to the Excluded Shareholders for their information. The Excluded Shareholders will be entitled to attend and vote at the SGM.

The Rights Issue Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda.

Based on the register of members of the Company as at 27 February 2006, there were 324 Overseas Shareholders with registered addresses in 26 jurisdictions outside Hong Kong. Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries with its legal advisers in these 26 jurisdictions as to whether there is any legal restriction under the applicable securities legislation of the relevant jurisdiction or requirement of any relevant regulatory body or stock exchange with respect to the offer of Rights Shares to such Overseas Shareholders.

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## LETTER FROM THE BOARD

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The Company has been advised by its legal advisers on the laws of Canada, Gibraltar, Indonesia, Malaysia, Philippines, Saudi Arabia, Switzerland, Taiwan and U.S. that either (i) the Rights Issue Documents will be required to be registered or filed with or subject to approval by the relevant regulatory authorities in the relevant jurisdictions (as the case may be); or (ii) the Company would need to take additional steps to comply with the regulatory requirements of the relevant regulatory authorities in the relevant jurisdictions. Therefore, the Company would be required to comply with the relevant laws and regulations if the Rights Issue is to be offered to the Overseas Shareholders with registered addresses in these 9 jurisdictions. Having considered the circumstances, the Directors are of the view that it is not expedient to extend the Rights Issues to such Overseas Shareholders taking into consideration that the time and costs involved in complying with the legal requirements of these jurisdictions will outweigh the possible benefits to the relevant Overseas Shareholders and the Company. Thus, the Rights Issue would not be extended to the Overseas Shareholders in Canada, Gibraltar, Indonesia, Malaysia, Philippines, Saudi Arabia, Switzerland, Taiwan and U.S.. The Company would send the Prospectus, for information only, to such Overseas Shareholders with registered addresses in Canada, Gibraltar, Indonesia, Malaysia, Philippines, Saudi Arabia, Switzerland, Taiwan and U.S. but will not send the provisional allotment letter and the form of application for excess Right Shares to them.

The Company has also been advised by its legal advisers on the laws of Australia, British Virgin Islands, Germany, Ireland, Israel, Japan, Liechtenstein, Macau, Netherlands, New Zealand, Portugal, PRC, Singapore, Spain, Thailand, United Kingdom and Zimbabwe that either (i) there is no legal restriction under the applicable legislation of the relevant jurisdictions or requirement of any relevant regulatory body or stock exchange with respect to the offer of the Rights Issue to the Overseas Shareholders in the relevant jurisdictions; or (ii) the Company would be exempt from obtaining approval from, and/or registration of the Rights Issue Documents with, the relevant regulatory authorities under the applicable laws and regulations of the relevant jurisdictions since the Company would meet the relevant requirements for exemption under the relevant jurisdictions. Based on the advice of the Company's legal advisers on the laws of Australia, British Virgin Islands, Germany, Ireland, Israel, Japan, Liechtenstein, Macau, Netherlands, New Zealand, Portugal, PRC, Singapore, Spain, Thailand, United Kingdom and Zimbabwe, the Directors believe that the Rights Issue Documents would not be required to be registered under the relevant laws and regulations of these 17 jurisdictions and may be despatched to the Overseas Shareholders with registered addresses in these 17 jurisdictions without any restrictions. In view thereof, the Directors have decided to extend the Rights Issue to the Overseas Shareholders with registered addresses in Australia, British Virgin Islands, Germany, Ireland, Israel, Japan, Liechtenstein, Macau, Netherlands, New Zealand, Portugal, PRC, Singapore, Spain, Thailand, United Kingdom and Zimbabwe and such Overseas Shareholders are Qualifying Shareholders. The Company will send the Rights Issue Documents to such Qualifying Shareholders.

In addition, the Directors have been advised by its legal advisers on the laws of PRC, Thailand and Zimbabwe that while Overseas Shareholders with registered addresses in these three jurisdictions may be lawfully offered the Rights Shares, they need to comply with the relevant exchange control regulations in their own jurisdictions if they wish to take up the Rights Shares. Therefore, although Overseas Shareholders from these three jurisdictions will not be excluded from the Rights Issue, such



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## LETTER FROM THE BOARD

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Overseas Shareholders are advised to consult their own professional advisers whether it would be beneficial or expedient for them to participate in the Rights Issue and if so, to ensure that they have complied with all the applicable exchange control regulations in their own jurisdictions before taking up the Rights Shares.

In the event that there are as at the Record Date any Overseas Shareholders with registered addresses other than in the abovementioned 26 jurisdictions, the Company will consider the rights of such Overseas Shareholders and the relevant arrangements in respect of the Rights Issue for them, including whether it is feasible to extend the Rights Issue to such Overseas Shareholders. If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Rights Shares to such Overseas Shareholders, the Company would send the Prospectus, for information only, to such Overseas Shareholders but will not send the provisional allotment letter and the form of application for excess Rights Shares to them.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK\$100 or less for its own benefit.

### **Share Option Scheme**

As at the Latest Practicable Date, there were Outstanding Options attaching thereto subscription rights to subscribe for an aggregate of 14,972,000 Shares. Pursuant to the terms of the Share Option Scheme, adjustments to the Outstanding Options may be made if the Rights Issue becomes unconditional. The Company will announce further details on such adjustment (if any) in accordance with the provisions under the Share Option Scheme.

### **Application for listing**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

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

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## LETTER FROM THE BOARD

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All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

Nil-paid Rights Shares are expected to be traded in board lots of 2,000. Dealings in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on 19 April 2006.

### **Taxation**

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the acquisition, holding or disposal of, or dealing in the Rights Shares and, as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasized that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon the following conditions being fulfilled:

- (1) the Company despatching this circular to the Shareholders containing, among other matters, details of the Rights Issue and Whitewash Waiver together with proxy form and notice of the SGM;
- (2) the passing by the Independent Shareholders at the SGM by way of poll of ordinary resolutions to approve the Rights Issue (if required by the Securities and Futures Commission, the Stock Exchange or other regulatory authorities) and the Whitewash Waiver by no later than the date on which the Prospectus is despatched;
- (3) the Executive granting the Whitewash Waiver to Mr. Poon and parties acting in concert with him and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;
- (4) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the date on which the Prospectus is despatched;
- (5) the Bermuda Monetary Authority granting consent to (if required) the issue of the Rights Shares by no later than the date on which the Prospectus is despatched;

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## LETTER FROM THE BOARD

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- (6) the posting of the Rights Issue Documents to Qualifying Shareholders;
- (7) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;
- (8) compliance with and performance of each of Mr. Poon and the relevant persons named in the Underwriting Agreement of all of his/her/its undertakings and obligations under the terms of the Underwriting Agreement; and
- (9) Mr. Poon, together with parties acting in concert with him, shall be and shall remain to be the controlling shareholders (as defined in the Listing Rules) of the Company.

If any of the conditions of the Rights Issue are not fulfilled or waived (in respect of conditions (7) and (8) only) on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriters may determine in writing), the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriters shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

The parties to the Underwriting Agreement have been advised that the Rights Issue is not required to be made conditional upon the Independent Shareholders' approval for the Rights Issue at the SGM.

### **REASONS FOR THE RIGHTS ISSUE AND USE OF THE PROCEEDS**

The Directors have decided to take advantage of favourable conditions in the market to raise further equity on a fully underwritten basis and on a basis which will allow all Qualifying Shareholders to participate in the Rights Issue in proportion to their shareholdings. The Company intends to use the net proceeds from the Rights Issue, being approximately HK\$160 million if no Outstanding Options are exercised on or before the Record Date or approximately HK\$170 million if all Outstanding Options are exercised on or before the Record Date, for future investment opportunities in Hong Kong, Macau and the PRC. The Directors consider that the additional capital generated from the Rights Issue will further strengthen the financial position of the Group and will be used for investment purpose in order to expand the Group's investment portfolio. The Directors have not identified any specific investment projects for the time being and will continue to identify suitable investment opportunities for the Group. The Company is an investment holding company. The principal activities of its major investee companies include investment and development of properties and investment and operation of hotels, restaurants, travel agency and securities investment. The Directors consider that any new investment is likely to be in one of these sectors and that the Rights Issue provides a good opportunity for the Company to strengthen its capital position so that when suitable opportunities are identified by the Directors from time to time, the Company will be financially flexible to respond to the market prospects, which in turn will be beneficial to the Group in the long run. Further announcement will be made by the Company in accordance with or as required under the Listing Rules if any investment opportunity materializes.

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## LETTER FROM THE BOARD

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The Directors consider that it is in the interest of the Company and the Shareholders as a whole to raise further capital which will be used by the Company to support and expand the Group's business and operation and investment opportunities, and the Rights Issue will allow all Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company.

The Directors consider that it is not always possible for small to medium size listed companies to raise capital through the market. The Directors therefore consider appropriate for the Company to capture the fund raising opportunity through the Rights Issue on a fully underwritten basis. The Company intends to use the net proceeds from the Top-Up Subscription of approximately HK\$28.8 million (representing approximately 1.8% of the unaudited net tangible assets of the Group as at 30 September 2005) for general working capital of the Group, as stated in the Company's announcement dated 11 January 2006. As the Top-Up Subscription raised a comparatively small amount of funds, the Directors expect that the investment opportunities that arise in the future are likely to require greater amount of funds. As stated above, the Company has decided to take advantage of this opportunity to raise additional equity funds by way of the Rights Issue so as to be able to respond rapidly to any investment opportunity that may arise.

### FUND RAISING ACTIVITIES OF THE COMPANY IN THE 12 MONTHS ENDING ON THE DATE OF THE ANNOUNCEMENT

<b>Date of announcement</b>	2 March 2005	11 January 2006
<b>Event</b>	Placing and subscription of 34.6 million Shares ( <i>Note 1</i> )	Placing and subscription of 16 million Shares ( <i>Note 2</i> )
<b>Net proceeds raised</b>	HK\$84.3 million	HK\$28.8 million
<b>Proposed use of the net proceeds</b>	HK\$70 million for repayment of bank borrowing and HK\$14.3 million for general working capital	General working capital
<b>Actual use of the net proceeds</b>	HK\$70 million for bank loans repayment, approximately HK\$7.5 million for staff remuneration, approximately HK\$1.5 million for finance expenses, approximately HK\$1.3 million for acquisition of fixed assets and approximately HK\$4.0 million for other administrative expenses	HK\$1.3 million for general operating expenses and the Company intends to use the remaining net proceeds as announced

*Notes:*

- Such Shares have been issued pursuant to the general mandate granted at the annual general meeting of the Company held on 27 August 2004.
- Such Shares have been issued pursuant to the general mandate granted at the AGM.

Save as disclosed above, the Company did not carry out any rights issue, open offer or other issue of equity securities for fund raising purpose in the 12 months ending on the date of the Announcement.

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## LETTER FROM THE BOARD

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### UNDERWRITING ARRANGEMENTS

#### The Underwriting Agreement

- Date: 8 February 2006 (as supplemented by the letter dated 10 February 2006 entered into by the same parties amending certain definitions and the expected timetable of the Rights Issue)
- Underwriters: Mr. Poon, an executive Director  
Tai Fook Securities
- Number of Shares to be underwritten (“Underwritten Shares”): Not less than 86,954,119 Rights Shares and not more than 93,581,119 Rights Shares, as to not less than 23,314,625 Rights Shares (*Note 1*) and not more than 29,941,625 Rights Shares (*Note 2*) to be underwritten by Mr. Poon and 63,639,494 Rights Shares to be underwritten by Tai Fook Securities provided that:
- (a) Mr. Poon shall subscribe or procure subscription for all Underwritten Shares not taken up by the Qualifying Shareholders which are Shares issued upon exercise of the Outstanding Options (“Underwritten Option Shares”);
  - (b) if the number of the Underwritten Shares not taken up by the Qualifying Shareholders (excluding the Underwritten Option Shares) is equal to or less than 23,314,625 Rights Shares, Mr. Poon shall solely subscribe or procure subscription for all such Underwritten Shares; and
  - (c) if the number of the Underwritten Shares not taken up by the Qualifying Shareholders (excluding the Underwritten Option Shares) is more than 23,314,625 Rights Shares, Mr. Poon shall first subscribe or procure subscription for such Underwritten Shares to the extent of 23,314,625 Rights Shares and Tai Fook Securities shall subscribe or procure subscription for the balance of such Underwritten Shares.
- Commission: 2% of the total Subscription Price of the Rights Shares underwritten by Tai Fook Securities. The commission to be received by Tai Fook Securities will be approximately HK\$1.7 million. The commission payable to Tai Fook Securities was determined after arm’s length negotiations between the Company and Tai Fook Securities. The Directors (including the independent non-executive Directors) consider that such amount is on normal commercial terms and is comparable with market rate. Under the Underwriting Agreement, Mr. Poon will not receive any underwriting commission in connection with his underwriting of the Rights Shares.

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## LETTER FROM THE BOARD

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### Notes:

1. This figure excludes 40,324,867 Rights Shares to be provisionally allotted to Mr. Poon and parties acting in concert with him in respect of their beneficial shareholding in the Company, for which Mr. Poon has undertaken, and has undertaken to procure parties acting in concert with him to undertake, to subscribe in full (assuming that no Outstanding Options are exercised on or before the Record Date).
2. This figure includes the Rights Shares to be provisionally allotted in respect of the Shares issued upon exercise of the Outstanding Options on or before the Record Date, but excludes (i) 40,324,867 Rights Shares to be provisionally allotted to Mr. Poon and parties acting in concert with him in respect of their beneficial shareholding in the Company, for which Mr. Poon has undertaken, and has undertaken to procure parties acting in concert with him to undertake, to subscribe in full, and (ii) 859,000 Rights Shares to be provisionally allotted to Mr. Fung Siu To Clement pursuant to the Rights Issue in respect of 1,718,000 Shares which will be issued to him if he exercises on or before the Record Date the Outstanding Options attaching thereto subscription rights to subscribe for 1,718,000 Shares granted to him, for which Mr. Poon has undertaken to procure Mr. Fung Siu To Clement to undertake to subscribe in full.

Under the terms of the Underwriting Agreement, the Company and the Underwriters agreed that if the conditions of the Rights Issue are fulfilled or waived on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriters may determine in writing) and the Underwriting Agreement becomes unconditional and is not terminated in accordance with the terms thereof, the Company shall before 10:00 a.m. on the second Business Day after the Latest Acceptance Time notify or procure its branch share registrar in Hong Kong on behalf of the Company to notify the Underwriters in writing of the number of Underwritten Shares not taken up by Qualifying Shareholders on or before the Latest Acceptance Time (“Untaken Shares”) and the Underwriters shall subscribe for the Untaken Shares and pay the relevant Subscription Monies not later than 4:00 p.m. on the second Business Day after (but not including) the date of their receipt of the written notification.

### Termination of the Underwriting Agreement

**The Underwriting Agreement contains provisions granting Tai Fook Securities, by notice in writing, the right to terminate the Underwriters’ obligations thereunder on the occurrence of certain events. Tai Fook Securities may terminate the Underwriting Agreement prior to the Latest Time for Termination if prior to the Latest Time for Termination:**

- (a) **in the absolute opinion of Tai Fook Securities acting in good faith, the success of the Rights Issue would be materially and adversely affected by:**
  - (i) **the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of Tai Fook Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or**

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## LETTER FROM THE BOARD

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- (ii) the occurrence of any local, national or international event or change, whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement, of a political, financial, economic currency, market or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may in the absolute opinion of Tai Fook Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
  - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would in the absolute opinion of Tai Fook Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (v) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
  - (vi) the commencement by any third party of any litigation or claim against any member of the Group which is or might be material to the Group taken as a whole; or
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the PRC or other jurisdiction relevant to the Group or any member of the Group and a change in currency conditions for the purpose of the Underwriting Agreement includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of Tai Fook Securities makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (c) this circular or the Prospectus when published contains information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which in the absolute opinion of Tai Fook Securities is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it.

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## LETTER FROM THE BOARD

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If the Underwriting Agreement is terminated by Tai Fook Securities before the aforesaid deadline or does not become unconditional, the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriters shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

Pursuant to the Underwriting Agreement, Tai Fook Securities is entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (a) any material breach of any of the warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Tai Fook Securities; or
- (b) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material aspect comes to the knowledge of Tai Fook Securities.

Any such notice shall be served by Tai Fook Securities prior to the Latest Time for Termination.



# LETTER FROM THE BOARD

## CHANGES IN SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Rights Issue assuming that there is no change in the shareholding structure of the Company from the Latest Practicable Date to immediately before completion of the Rights Issue save pursuant to the exercise of Outstanding Options and the transactions contemplated under the Underwriting Agreement, and further assuming that the Underwriters take up the Rights Shares to the maximum extent:

Name of Shareholder/ Beneficial owner	As at the Latest Practicable Date		Immediately after completion of the Rights Issue (assuming no Outstanding Options are exercised on or before completion of the Rights Issue)		Immediately after completion of the Rights Issue (assuming all Outstanding Options are exercised on or before the Record Date)	
	No. of Shares held	Percentage shareholdings	No. of Shares held	Percentage shareholdings	No. of Shares held	Percentage shareholdings
Mr. Poon	36,516,438	14.3%	78,089,282 (Note 1)	20.4%	84,716,282 (Note 1)	21.0%
Full Speed Investments Limited/Mr. Poon	9,099,565	3.6%	13,649,347	3.6%	13,649,347	3.4%
Heston Holdings Limited/ Mr. Poon	13,437,378	5.3%	20,156,067	5.3%	20,156,067	5.0%
Teddington Holdings Limited/Mr. Poon	16,129,861	6.3%	24,194,791	6.3%	24,194,791	6.0%
Wong Mei Ling Suzanne (Note 2)	1,420,588	0.6%	2,130,882	0.6%	2,130,882	0.5%
Fung Siu To Clement (Note 3)	4,045,906	1.6%	6,068,859	1.6%	8,645,859	2.1%
Lim Yin Cheng (Note 3)	Nil	0%	Nil	0%	1,718,000	0.4%
<b>Sub-total of Mr. Poon and parties acting in concert with him</b>	<b>80,649,736</b>	<b>31.7%</b>	<b>144,289,228</b>	<b>37.8%</b>	<b>155,211,228</b>	<b>38.4%</b>
Other Directors	Nil	0%	Nil	0%	3,436,000 (Note 4)	0.8%
Tai Fook Securities Public	Nil 173,908,236	0% 68.3%	63,639,494 173,908,236	16.7% 45.5%	63,639,494 182,008,236	15.8% 45.0%
<b>Total</b>	<b>254,557,972</b>	<b>100%</b>	<b>381,836,958</b>	<b>100%</b>	<b>404,294,958</b>	<b>100%</b>

*Notes:*

- Such interests represent the sum of (a) the 36,516,438 Shares currently held by Mr. Poon or his nominee together with the 18,258,219 Rights Shares to be provisionally allotted to him or his nominee in respect of such 36,516,438 Shares which Mr. Poon has undertaken to take up under the Rights Issue; and (b) the maximum number of Rights Shares which Mr. Poon may have to take up as one of the Underwriters under the Rights Issue (being 23,314,625 Rights Shares assuming no Outstanding Options are exercised on or before the Record Date or 29,941,625 Rights Shares assuming all the Outstanding Options are exercised on or before the Record Date).
- Ms. Wong Mei Ling Suzanne is the spouse of Mr. Poon.
- Mr. Fung Siu To Clement and Mr. Lim Yin Cheng are executive Directors and brothers-in-law of Mr. Poon.

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## LETTER FROM THE BOARD

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4. Such interests represent the aggregate shareholding interests of Mr. Lun Pui Kan and Mr. Kwan Po Lam Phileas, all being executive Directors, in the Company assuming all their Outstanding Options are exercised on or before the Record Date and none of them take up the Rights Shares provisionally allotted to each of them.

In addition, assuming that only the Outstanding Options attached thereto subscription rights to subscribe for an aggregate of 3,436,000 Shares held by Mr. Fung Siu To Clement and Mr. Lim Yin Cheng, being executive Directors and brothers-in-law of Mr. Poon, are exercised on or before the Record Date while the remaining Outstanding Options are not exercised on or before the Record Date and the Underwriters take up the Rights Shares to the maximum extent, the subscription by Mr. Poon and parties acting in concert with him (except Mr. Lim Yin Cheng) for the Rights Shares provisionally allotted to them under the Rights Issue and the underwriting of the Rights Shares by Mr. Poon pursuant to the Underwriting Agreement may result in the aggregate shareholdings of Mr. Poon and parties acting in concert with him in the Company being increased from approximately 31.7% to approximately 38.6%.

### **WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES**

**The Shares will be dealt in on an ex-rights basis from 13 March 2006. Dealings in the Rights Shares in the nil-paid form will take place from 24 March 2006 to 31 March 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriters may determine in writing), or the Underwriting Agreement is terminated by Tai Fook Securities, the Rights Issue will not proceed and the Rights Issue will lapse.**

**Any persons contemplating buying or selling Shares from the Latest Practicable Date up to the date on which all the conditions of the Rights Issue are fulfilled and/or waived, and any dealings in the Rights Shares in their nil-paid form from 24 March 2006 to 31 March 2006 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.**

**Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.**

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES**

If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on the latest date for acceptance of the offer of Rights Shares at any time between 12:00 noon and 4:00 p.m., the Latest Acceptance Time will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m. Accordingly, the dates mentioned in the section headed “Expected timetable for the Rights Issue” in this circular may be affected. A press announcement will be made by the Company in such event.

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## LETTER FROM THE BOARD

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### MAINTENANCE OF PUBLIC FLOAT

It is expected that immediately following the completion of the Rights Issue, there will be more than 25% of the Shares held by the public. However, the Stock Exchange has stated that if, at the date of completion of the Rights Issue, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

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

then it will consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained.

### WHITEWASH WAIVER

Mr. Poon and parties acting in concert with him were beneficially interested in 80,649,736 Shares, representing approximately 31.7% of the issued share capital of the Company as at the Latest Practicable Date. In the event that no Qualifying Shareholder (other than Mr. Poon and parties acting in concert with him) takes up any Rights Shares under the Rights Issue and assuming no Outstanding Options are exercised on or before the Record Date, Mr. Poon, as one of the Underwriters, has agreed to subscribe for and take up 23,314,625 Rights Shares that are not subscribed for under the Rights Issue pursuant to the Underwriting Agreement. In the event that no Qualifying Shareholder (other than Mr. Poon and parties acting in concert with him) takes up any Rights Shares under the Rights Issue and assuming all Outstanding Options are exercised in full on or before the Record Date, Mr. Poon, as one of the Underwriters, has agreed to subscribe for and take up 29,941,625 Rights Shares that are not subscribed for under the Rights Issue pursuant to the Underwriting Agreement. Accordingly, the subscription for and underwriting of the Rights Shares under the Rights Issue by Mr. Poon may result in the aggregate shareholding in the Company of Mr. Poon and parties acting in concert with him being increased from approximately 31.7% to approximately 37.8% (assuming no Outstanding Options are exercised on or before the Record Date), or to approximately 38.4% (assuming all the Outstanding Options are exercised in full on or before the Record Date) and may trigger an obligation for him and parties acting in concert with him to make a mandatory offer under Rule 26 of the Takeovers Code for all the Shares and securities issued by the Company not already held by him and parties acting in concert with him. Under the 2% creeper mentioned in the Takeovers Code, Mr. Poon and parties acting in concert with him may increase their aggregate shareholding from the lowest percentage shareholding in the past 12 months of approximately 31.7% to approximately 33.7% without incurring a mandatory offer obligation. The possible increase of the aggregate shareholding of Mr. Poon and parties acting in concert with him of approximately 6.1% from approximately 31.7% to approximately 37.8% (assuming no Outstanding Options are exercised on or before the Record Date) as a result of the subscription for and the underwriting of the Rights Shares under the Rights Issue by Mr. Poon represents an approximately 4.1% increase over and above the limit allowed by the 2% creeper (37.8% less 33.7%). In the event that all the Outstanding Options are exercised in full on or before the Record Date, the possible increase of the aggregate shareholding of Mr. Poon and parties acting in concert

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## LETTER FROM THE BOARD

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with him of approximately 6.7% from approximately 31.7% to approximately 38.4% as a result of the subscription for and the underwriting of the Rights Shares under the Rights Issue by Mr. Poon represents an approximately 4.7% increase over and above the limit allowed by the 2% creeper (38.4% less 33.7%).

In addition, assuming that only the Outstanding Options attached thereto subscription rights to subscribe for 1,718,000 Shares held by each of Mr. Fung Siu To Clement and Mr. Lim Yin Cheng, being executive Directors and brothers-in-law of Mr. Poon, are exercised on or before the Record Date while the remaining Outstanding Options are not exercised on or before the Record Date, the subscription for and underwriting of the Rights Shares under the Rights Issue by Mr. Poon may result in the aggregate shareholdings of Mr. Poon and parties acting in concert with him in the Company being increased from approximately 31.7% to approximately 38.6%. This represents an approximately 4.9% increase over and above the limit allowed by the 2% creeper (38.6% less 33.7%) and may similarly trigger a general offer obligation for Mr. Poon and parties acting in concert with him.

A formal application has been made by Mr. Poon to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders at the SGM by way of poll, which Mr. Poon and parties acting in concert with him and Shareholders who are involved in or interested in the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the relevant resolution. It is a condition precedent to the completion of the Rights Issue that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the condition imposed thereon is not fulfilled, the Rights Issue will not proceed.

As at the Latest Practicable Date, other than approximately 31.7% of the issued share capital of the Company beneficially owned by Mr. Poon and parties acting in concert with him, the Outstanding Options attaching thereto subscription rights to subscribe for 1,718,000 Shares held by each of Mr. Fung Siu To Clement and Mr. Lim Yin Cheng and the transactions contemplated under the Underwriting Agreement, Mr. Poon and parties acting in concert with him did not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company.

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## LETTER FROM THE BOARD

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### DEALINGS OF SHARES BY MR. POON AND PARTIES ACTING IN CONCERT WITH HIM

Dealings of Shares by Mr. Poon and parties acting in concert with him during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date are as follows:

- (a) The following Shares have been acquired by Mr. Poon in the market:

Date	Number of Shares acquired	Purchase price for Shares acquired		
		Highest unit price (HK\$)	Lowest unit price (HK\$)	Average unit price (HK\$)
23 September 2005	488,000	2.400	2.350	2.359
26 September 2005	120,000	2.400	2.350	2.376
27 September 2005	576,000	2.400	2.300	2.356
28 September 2005	190,000	2.400	2.375	2.388
29 September 2005	<u>198,000</u>	2.425	2.375	2.405
Total	<u>1,572,000</u>			

- (b) On 14 October 2005, the Company made a scrip distribution pursuant to which (i) 1,271,219 Shares were distributed to Mr. Poon and his associates; and (ii) 68,547 Shares were distributed to Mr. Fung Siu To Clement. The Shares issued under the scrip distribution were issued at HK\$2.495 per Share.
- (c) On 11 January 2006, Mr. Poon and Get Nice Investment Limited entered into the Placing Agreement pursuant to which Mr. Poon agreed to place, through Get Nice Investment Limited, an aggregate of 16,000,000 existing Shares to not fewer than six independent placees at a price of HK\$1.85 per Share, and Mr. Poon and the Company entered into the Top-Up Subscription Agreement pursuant to which Mr. Poon conditionally agreed to subscribe for an aggregate of 16,000,000 new Shares at a price of HK\$1.85 per Share. Details of the Placing Agreement and the Top-Up Subscription Agreement are set out in the announcement of the Company dated 11 January 2006. Completion of the placing and the Top-Up Subscription took place on 16 January 2006 and 23 January 2006 respectively. As a result of the Top-Up Subscription, the shareholding of Mr. Poon and parties acting in concert with him in the Company was reduced from approximately 33.8% to approximately 31.7%.

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## LETTER FROM THE BOARD

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### INFORMATION AND INTENTION OF MR. POON

Mr. Poon is an executive Director. Please refer to appendix III to this circular for the details of Mr. Poon. Mr. Poon's ordinary course of business does not involve underwriting of securities.

It is the intention of Mr. Poon to continue the existing business of the Group and not to introduce any major changes to the Group's business, including any redeployment of the Group's fixed assets. Mr. Poon has no plan to cause any material changes to the continued employment of the Group's employees.

### REFRESHMENT OF THE GENERAL MANDATES

#### Background

At the AGM, approval was given by Shareholders for the granting of, *inter alia*, (i) the Current Share Repurchase Mandate to the Directors to repurchase Shares on the Stock Exchange up to 10% of the issued share capital of the Company as at the date of the AGM; and (ii) the Current Share Issue Mandate to allot and issue Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM.

Taking into account the increase in the total amount of issued share capital of the Company as a result of the Rights Issue, the Directors have proposed a resolution to be approved by Shareholders at the SGM to approve, conditional upon completion of the Rights Issue, the refreshment of the Current Share Repurchase Mandate by the grant of the New Share Repurchase Mandate. The explanatory statement required by the Listing Rules to be sent to Shareholders in connection with the proposed resolution on the New Share Repurchase Mandate is set out in appendix IV to this circular.

The Current Share Issue Mandate granted to the Directors at the AGM to allot, issue and deal with a maximum of 46,903,242 new Shares pursuant to the resolution passed at the AGM, being 20% of the total amount of issued share capital of the Company as at 26 August 2005, has been utilized by the issue of 16,000,000 new Shares for the Top-Up Subscription, representing approximately 6.9% of the total amount of issued share capital of the Company as at the date of the AGM. As a result of the Top-Up Subscription, the amount, in percentage term, of the unused part of the Current Share Issue Mandate is approximately 13.1%.

The Directors have proposed a resolution to be approved by Shareholders at the SGM such that conditional upon completion of the Rights Issue, the Current Share Issue Mandate be refreshed by the grant of the New Share Issue Mandate to the Directors to exercise the powers of the Company to allot and issue securities not exceeding 13.1% (being the amount, in percentage term, of the unused part of the Current Share Issue Mandate immediately before completion of the Rights Issue) of the total amount of issued share capital of the Company as enlarged by the Rights Issue, being:

- (i) a minimum of 50,020,641 Shares, assuming that no Outstanding Options are exercised on or before the Record Date and that the total number of issued share capital of the Company is increased to 381,836,958 Shares immediately after completion of the Rights Issue; and

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## LETTER FROM THE BOARD

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- (ii) a maximum of 52,962,639 Shares, assuming that all Outstanding Options to subscribe for an aggregate of 14,972,000 Shares are exercised on or before the Record Date and that the total number of issued share capital of the Company is increased to 404,294,958 Shares immediately after completion of the Rights Issue,

assuming that no Shares will be repurchased and that no new Shares, other than those pursuant to the transactions contemplated under the Underwriting Agreement, the Rights Issue and (in the case of (ii) above) the exercise of the Outstanding Options, will be issued from the Latest Practicable Date to the date of completion of the Rights Issue (both dates inclusive).

An ordinary resolution will also be proposed to grant to the Directors, in addition to the New Share Issue Mandate, to exercise the powers of the Company to issue and allot Shares of such number of Shares repurchased by the Company in accordance with the New Share Repurchase Mandate.

### **Usage of the Current Share Issue Mandate since the AGM**

Since the date of the AGM and up to the Latest Practicable Date, the Company has utilized 16,000,000 Shares under the Current Share Issue Mandate to issue Shares for the Top-Up Subscription. Approximately HK\$1.3 million of the total net proceeds from the Top-Up Subscription of approximately HK\$28.8 million has been utilized. The Company intends to use the remaining net proceeds as its general working capital as announced.

### **Refreshment of the Current Share Issue Mandate since the AGM**

There was no refreshment of the Current Share Issue Mandate since the date of the AGM and up to the Latest Practicable Date.

### **Reasons for, and benefits of, refreshment of the Current Share Issue Mandate by the grant of the New Share Issue Mandate**

The Directors believe that it is in the interests of the Company and its Shareholders as a whole if, following completion of the Rights Issue, the Current Share Issue Mandate is refreshed by the grant of the New Share Issue Mandate at the SGM, as it can provide the Directors with the powers to issue new securities under the limit granted pursuant to the New Share Issue Mandate speedily as and when necessary, and without seeking further Shareholders' approval. Save for the Rights Issue, the Directors currently have no intention or plan for raising capital by issuing new securities. In the event this changes and there is in fact a share issue, the Company will comply with the relevant requirements of the Listing Rules.

### **Approval of the New Share Issue Mandate**

Pursuant to Rule 13.36(4)(e) of the Listing Rules, any refreshment of the Current Share Issue Mandate before the next annual general meeting of the Company requires approval from Shareholders if immediately after completion of the Rights Issue, the amount in percentage term of the New Share Issue Mandate is the same as the amount in percentage term of the unused part of the Current Share Issue Mandate immediately before completion of the Rights Issue. The Directors have proposed a resolution to be approved by Shareholders at the SGM for the refreshment of the Current Share Issue Mandate by the grant of the New Share Issue Mandate.

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## LETTER FROM THE BOARD

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### **Period during which the General Mandates will remain effective**

Conditional upon completion of the Rights Issue, the General Mandates will, if granted, remain effective during the period immediately after completion of the Rights Issue until the earliest of (a) the conclusion of the next annual general meeting of the Company; (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws or any applicable laws to be held; or (c) the revocation or variation of the General Mandates by an ordinary resolution of the Shareholders in a general meeting.

### **SGM**

The Rights Issue is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders by way of poll at the SGM. Mr. Poon and parties acting in concert with him and Shareholders who are involved in or interested in the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the ordinary resolution approving the Whitewash Waiver.

Set out on pages 150 to 153 of this circular is a notice convening the SGM to be held at Basement 1, Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong at 10:00 a.m. on 21 March 2006 at which ordinary resolutions will be proposed to the Independent Shareholders and the Shareholders to consider and, if thought fit, approve the Whitewash Waiver and the refreshment of the General Mandates respectively.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal office of the Company in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM if you so wish.

### **RECOMMENDATIONS**

VC Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver. The full text of the letter of advice from VC Capital containing its recommendation and the principal factors they have taken into account in arriving at their recommendation are set out on pages 32 to 53 of this circular. The full text of the letter from the Independent Board Committee is set out on pages 30 and 31 of this circular.

The Directors believe that the proposed resolutions to approve the refreshment of the General Mandates, as set out in the notice of the SGM, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders vote in favour of such resolutions at the SGM.



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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from VC Capital and the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Asia Orient Holdings Limited**  
**Fung Siu To Clement**  
*Chairman*



**ASIA ORIENT HOLDINGS LIMITED**

**(滙漢控股有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 214)**

3 March 2006

*To the Independent Shareholders*

**PROPOSED RIGHTS ISSUE OF  
NOT LESS THAN 127,278,986 RIGHTS SHARES  
AND NOT MORE THAN 134,764,986 RIGHTS SHARES OF HK\$0.10 EACH  
AT HK\$1.30 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF ONE RIGHTS SHARE  
FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE) AND  
APPLICATION OF WHITEWASH WAIVER**

Dear Sirs,

We refer to the letter from the Board set out in the circular dated 3 March 2006 (the “Circular”) of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Whitewash Waiver and to advise the Independent Shareholders as to whether the terms of the Whitewash Waiver are fair and reasonable and the Whitewash Waiver is in the interests of the Independent Shareholders and to recommend whether the Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the SGM to approve the Whitewash Waiver. VC Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver.

We wish to draw your attention to the letter from the Board and the letter from VC Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us and you in relation to the Whitewash Waiver as set out in the Circular.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by, and the opinion of, VC Capital as stated in its letter of advice as set out on pages 32 to 53 of the Circular, we consider that the terms of the Whitewash Waiver are fair and reasonable and the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,

**Independent Board Committee**

**Cheung Kwok Wah Ken**

**Hung Yat Ming**

**Wong Chi Keung**

*Independent non-executive Directors*

# LETTER FROM VC CAPITAL

*The following is the full text of the letter from VC Capital dated 3 March 2006 setting out their advice to the Independent Board Committee and the Independent Shareholders.*



**VC CAPITAL LIMITED** A member of the Melco Group  
**滙盈融資有限公司** 新濠集團成員

3 March 2006

Asia Orient Holdings Limited  
30th Floor, Asia Orient Tower  
Town Place, 33 Lockhart Road  
Wanchai, Hong Kong

*To The Independent Board Committee and  
The Independent Shareholders*

Dear Sirs,

**PROPOSED RIGHTS ISSUE OF NOT LESS THAN  
127,278,986 RIGHTS SHARES AND NOT MORE THAN  
134,764,986 RIGHTS SHARES OF HK\$0.10 EACH AT  
HK\$1.30 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE  
(IN PROPORTION OF ONE RIGHTS SHARE FOR EVERY  
TWO EXISTING SHARES HELD ON THE RECORD DATE) AND  
APPLICATION OF WHITEWASH WAIVER**

## INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Whitewash Waiver, details of which are contained in the Letter from the Board set out in the circular of the Company dated 3 March 2006 to the Shareholders and, for information only, the holders of the Outstanding Options (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Whitewash Waiver is one of the condition precedents of the Rights Issues with its terms and conditions setting out in the Letter from the Board. In summary, the Company proposed to raise, on a fully underwritten basis, not less than approximately HK\$165 million before expenses by issuing not less than 127,278,986 Rights Shares and to raise not more than approximately HK\$175 million before expenses by issuing not more than 134,764,986 Rights Shares at the Subscription Price of HK\$1.30 per Rights Share on the basis of one Rights Share for every two existing Shares in issue on the Record Date.

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## LETTER FROM VC CAPITAL

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The circumstances giving to the Whitewash Waiver have been stated in the paragraph headed “Whitewash Waiver” in the Letter from the Board. Mr. Poon has made a formal application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders at the SGM by way of poll, which Mr. Poon and parties acting in concert with him and Shareholders who are involved in or interested in the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the relevant resolution. It is a condition precedent to the completion of the Rights Issue that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the condition imposed thereon is not fulfilled, the Rights Issue will not proceed.

The Company has established an independent board committee (which comprises the three independent non-executive Directors, namely Messrs. Cheung Kwok Wah, Ken, Hung Yat Ming and Wong Chi Keung) to consider the Whitewash Waiver and to advise the Independent Shareholders as to whether the terms of the Whitewash Waiver are fair and reasonable and the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the independent financial adviser. Mr. Chan Sze Hung, the non-executive Director, is a consultant of a law firm which provides legal services to the Company from time to time and is therefore not considered to be independent under Rule 2.8 of the Takeovers Code so far as the Whitewash Waiver is concerned.

### **BASIS OF OUR RECOMMENDATION**

In formulating our opinion with regard to the Whitewash Waiver, we have relied on the information, opinions and representations, without assuming any responsibility for independent verification, supplied to us by the Company and the executive Directors and have assumed that all information, representations and opinions contained or referred to in the Circular are true, accurate, and complete in all material respects as of the date hereof. We have also assumed that all statements of intention of the management of the Company or the executive Directors, as set forth in the Circular, will be implemented. We have assumed that each of the Underwriting Agreement and undertakings relating to the Rights Issue is enforceable against each of the parties thereto in accordance with its terms and that each of the parties will perform, and will be able to perform, its obligations thereunder, and as otherwise described in the Circular, in full when due.

We have been advised by the Board that no material facts have been omitted and we are not aware of any facts or circumstances, which would render the information provided or the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Board. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statements in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the business and affairs or the future prospects of the Company.

# LETTER FROM VC CAPITAL

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Whitewash Waiver and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Whitewash Waiver, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all the analyses taken as a whole.

## RIGHTS ISSUE AND THE WHITEWASH WAIVER

### 1. Reasons for the Rights Issue

#### *Financials of Asia Standard International Group Limited (“ASI”) and business development of the Group*

#### *Financial review of the Group*

The Company is an investment holding company and the principal activities of its major investee companies include investment and development of properties, investment and operation of hotels, restaurants, travel agency and securities investment.

We have reviewed and set out below is a summary of the financial information of the Group for the six months ended 30 September 2004 and 2005 and the financial years ended 31 March 2004 and 2005 extracted from the interim report for the period ended 30 September 2005 (“Interim Report 2005”) and the annual report for the financial year ended 31 March 2005 (“Annual Report 2005”) of the Company respectively.

	<b>For the six months ended 30 September</b>		<b>For the year ended 31 March</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(after the Restatement)</i>	
Turnover	10,867	361,158	553,180	767,390
- Property sales*	—	36,165	36,165	167,813
- Property leasing and management	5,620	30,759	37,725	53,155
- Hotel and travel*	—	286,722	439,054	425,966
- Investments	1,604	2,214	18,782	91,735
- Other operations	3,643	5,298	21,454	28,721

# LETTER FROM VC CAPITAL

	For the six months ended 30 September		For the year ended 31 March	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(after the Restatement)</i>	
Other income and charges, including:	(22,003)	(35,077)	(54,460)	(84,651)
- Loss on partial disposal of interest in a listed subsidiary	—	—	(25,272)	(8,220)
- Loss on disposal of a listed subsidiary	—	—	(10,193)	—
- Loss on deemed disposal of interest in a listed associated company	—	—	(115,194)	—
	<u>—</u>	<u>—</u>	<u>(150,659)</u>	<u>—</u>
Gross profit	5,477	100,515	170,397	184,402
(Loss)/profit from operation	(25,265)	8,385	20,872	(27,483)
Share of profits less losses of associated companies	19,120	(18,477)	(80,061)	(111,486)
Profit/(loss) before taxation	1,306	99,158	29,887	(302,108)
Profit/(loss) attributable to Shareholders	2,059	38,689	(160,970)	(228,245)
Dividend and distribution	—	3,997	14,081	—
Earning/loss per share (HK\$)				
- Basic	0.88 cents	22.3 cents	(0.86)	(1.49)
- Diluted	0.86 cents	17.5 cents	(0.89)	N/A
Non-current assets, including:	1,407,341		1,386,187	1,818,827
- Associated companies	1,393,676		1,371,690	1,735,697
			288,923	2,218,552
Current assets, including:	249,303		288,923	2,218,552
- Properties held for/under development for sale	—		—	1,029,149
- Completed properties held for sale	—		—	608,082
- Hotel and restaurant inventories	—		—	2,615
- Debtors and prepayments	154,181		131,426	131,426
- Bank balances and cash**	71,323		128,843	157,409
Current liabilities, including:	64,765		91,395	701,466
- Creditors and accruals	39,496		39,347	305,877
- Short term bank loans and overdrafts, secured	12,817		14,676	158,150
- Short term bank loans and overdrafts, unsecured	—		—	77,600
- Current portion of long term loans	12,452		37,372	118,446

# LETTER FROM VC CAPITAL

	For the six months ended 30 September		For the year ended 31 March		
	2005	2004	2005	2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(after the Restatement)		
Net current assets	184,538		197,528	197,528	1,517,086
Total assets less current liabilities	1,591,879		1,583,715	2,016,355	7,014,963
Non-current liabilities, including:	8,322		14,548	14,548	4,924,540
- Convertible bonds	—		—	—	290,000
- Long term bank loans	—		6,226	6,226	2,229,216
Net assets	1,583,557		1,569,167	2,001,807	2,090,423
Net cash used in operating activities	(23,319)	(280,959)		(404,104)	(118,352)
Net cash (used in)/generated from investing activities, including:	(1,196)	287,764		292,600	179,530
- Dividends received from an jointly controlled entity	(Note ^)	(Note ^)		165,330	—
Net cash (used in)/generated from financing activities, including:	(30,221)	83,335		176,735	(147,387)
- Drawdown of long term bank loans	(Note ^)	(Note ^)		1,449,052	295,600
- Repayment of long term bank loan	(Note ^)	(Note ^)		(1,209,303)	(476,351)
				<u>239,749</u>	<u>(180,751)</u>
Net (decrease)/increase in cash and cash equivalent	(54,736)	90,140		65,231	(86,209)
Cash and cash equivalents	36,270	115,231		91,006	24,798

Note \* Revenue contributed by ASI and its group companies (the "ASI Group")

Note \*\* Bank balances and cash included approximately HK\$65 million, HK\$60 million<sup>+</sup>, HK\$33 million and HK\$35 million<sup>+</sup> of pledged deposits and balances held in trust as at 31 March 2004, 30 September 2004, 31 March 2005 and 30 September 2005 respectively.

Note + Such information is extracted from the management accounts of the Company.

Note ^ No such information is disclosed in the Interim Report 2005.



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## LETTER FROM VC CAPITAL

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### *For the year ended 31 March 2005*

The Group's turnover for the year ended 31 March 2005 was approximately HK\$553 million as compared to the turnover of approximately HK\$767 million for the year ended 31 March 2004. Such decrease of 28% was mainly attributable to the fact that i) ASI changed from a subsidiary to an associated company of the Company in January 2005 with the shareholding interests of the Company in ASI decreased from 52.8% to 40.5% and hence, the financial result of ASI was consolidated up to December 2004 and then equity accounted for thereafter ("Deconsolidation") and ii) the turnover of the ASI Group decreased from approximately HK\$726 million for the year ended 31 March 2004 to approximately HK\$705 million for the year ended 31 March 2005.

The Group recorded a net loss of approximately HK\$161 million for the year, which was mainly attributable to the loss on disposal of 12.3% interest in ASI of approximately HK\$151 million.

As at 31 March 2005, the Group had current assets of HK\$289 million (before restatement of the change of accounting policies after adopting the new/revised financial reporting standards 2005 (the "Restatement")) as compared to approximately HK\$2,219 million as at 31 March 2004. The substantial decrease in the current assets was mainly attributable to the fact that the major assets of the ASI Group (mainly include properties held for/under development for sale and completed properties held for sale) was no longer consolidated but equity accounted for as at 31 March 2005.

The Company's interests in the associated companies substantially increased by approximately HK\$1,280 million from approximately HK\$456 million as at 31 March 2004 to approximately HK\$1,736 million (before the Restatement) as at 31 March 2005 which was mainly attributable to the Deconsolidation.

The Group recorded net cash used in operating activities of approximately HK\$404 million, which was mainly attributable to the cash outlay of approximately HK\$412 million incurred by the ASI Group as the development cost of its properties as stated in the annual report of ASI for the year ended 31 March 2005. The Group recorded dividend cash inflow of approximately HK\$165 million from a jointly controlled entity of ASI and net drawdown of long term bank loans of approximately HK\$240 million. As a result, the Group recorded a net increase of cash and cash equivalents of approximately HK\$65 million.

### *For the six months ended 30 September 2005*

As illustrated in the above table, after the Deconsolidation, the turnover of property sales, hotel and travel operations were no longer recorded as the Group's turnover and hence the Group's turnover reduced substantially during this period and the Group's turnover was mainly consisted of (i) property leasing and management; (ii) investment; and (iii) other operations. The turnover of the Group for the six months period ended 30 September 2005 and 2004 was approximately HK\$11 million and HK\$362 million respectively.

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## LETTER FROM VC CAPITAL

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The Group recorded profit attributable to Shareholders of approximately HK\$2 million for the six months ended 30 September 2005 as compared to the same of approximately HK\$39 million for the six months ended 30 September 2004. Such substantial decrease of net profit was attributable to the Deconsolidation and the decrease of net profit of the ASI Group from approximately HK\$148 million for the six months ended 30 September 2004 to approximately HK\$52 million for the six months ended 30 September 2005 as stated in the interim report of ASI for the period ended 30 September 2005.

As at 30 September 2005, the Group had approximately HK\$71 million of bank balances and cash as compared to the same of approximately HK\$129 million as at 31 March 2005. Such decreases were mainly attributable to the repayments of long term bank loans during the period.

With respect to the approximately HK\$71 million of bank and cash balances as at 30 September 2005, approximately HK\$35 million of which was balances held in trust and hence, the discretionary cash held on hand by the Group as at 30 September 2005 was amounted to approximately HK\$36 million only.

### *Dividend from ASI*

In the past five financial years, the Group has only received dividend twice from ASI totalling approximately HK\$12.3 million during the financial year ended 31 March 2005. Accordingly, the investment in ASI Group has not served as a stable source of income to the Group.

### *Conclusion*

In summary, the principal activity of the Group is investment holding and the ASI Group is its major investment. Having reviewed the changes in financial position of the Group after the Deconsolidation, it evidenced that the Group's financials are mainly constituent from that of the ASI Group and its financial resources, in particular, cash resources are relatively small in making sizeable investments which has been discussed in the paragraph headed "Use of proceeds" below. Accordingly, in order to facilitate the Group to make significant investments in the future without realizing the investments held by the Group, it is reasonable to conduct the Rights Issue to raise capital resources in advance to facilitate for the Group to grasp future investment opportunities and strengthen its financial position.

The Group only recorded discretionary cash of approximately HK\$36 million as at 30 September 2005 and most of which has been used to repay the bank borrowings of approximately HK\$25.3 million subsequently. While the Group has raised approximately HK\$28.8 million in a placing exercise in January 2006 for general working capital purpose, the executive Directors are of the view that it is a prudent financial strategy for the Company to source new funds through the Rights Issue to build up its reserve to finance the new investment projects. The executive Directors also consider that the additional capital generated from the Rights Issue will further

strengthen the financial position of the Group and will be used for investment purpose in order to expand the Group's investment portfolio so that when suitable opportunities are identified by the executive Directors from time to time, the Company will be able to be financially flexible to respond to the market prospects.

In view of the above, we concur with the executive Directors' view that that the proposed Rights Issue is a prudent financial strategy to (i) grasp good future investment opportunities and make strategic investment to develop its investment business for the benefits of both the Company and the Shareholders as and when appropriate and (ii) strengthen its financial position.

### *Alternatives to the Rights Issue*

The executive Directors have carefully considered various means of financing, such as debt financing and other ways of equity financing. In January 2006, the Company has placed 16 million Shares and raised approximately HK\$28.8 million (representing approximately 1.8% of the unaudited net tangible assets of the Group as at 30 September 2005) for general working capital purpose. The percentage of public interest excluding the placees has decreased slightly from approximately 66.2% to 62.0% and the executive Directors consider that the dilution effect is acceptable. However, the executive Directors consider that if the Company raised the similar amount of funds as proposed to be raised by the Rights Issue through other equity financing methods such as placing and issuance of convertible securities, it would result in excessive dilution of shareholdings and value to the Shareholders without first offering them opportunities to participate in such equity raising exercises.

Given the limited level of discretionary cash available, as stated above, to service debt, the executive Directors consider that it is not a prudent financial strategy to place reliance on a material level of borrowings and further bank borrowings may also impose additional pressure on the Group's financial position. Hence, it will be in the interest of the Company to raise equity capital so as to strengthen its capital base.

As compared to debt financing, the Rights Issue enables the Group to strengthen its balance sheet without having to incur additional interest costs and increase its gearing level. As compared to other vehicles of equity financing vehicles, the executive Directors consider that the Rights Issue to be a more appropriate means of financing as it offers all Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Group and enables the Qualifying Shareholders to maintain their respective pro-rate shareholding interests in the Group and to continue to participate in the future development of the Group should they wish to do so. Furthermore, the Rights Issue allows Qualifying Shareholders who do not wish to subscribe the Rights Shares to dispose of their nil-paid rights in the market.

In view of the above, it is in the best interests of the Company and the Shareholders to raise further capital by way of the Rights Issue as it will allow all the Qualifying Shareholders an equal opportunity to maintain their respective pro rata shareholding interests in the Company. Nevertheless, Shareholders should note that those Qualifying Shareholders who do not subscribe for all or part of their entitlement under the Rights Issue will suffer a dilution of their respective shareholdings in the Company.

### 2. Use of proceeds

The Company intends to use the net proceeds from the Rights Issue of at least approximately HK\$160 million for future investment opportunities in Hong Kong, Macau and the PRC. The executive Directors represented that the Company has received a number of investment proposals from various parties from time to time, including investment proposals on property projects in Hong Kong and Macau and other proposals of various kinds, which involved an investment size of hundreds of million. While the executive Directors would examine the feasibility of making such investments, a strong capital base is also required by the Group to facilitate such investments.

During the past 12 months, the Group has increased its capital base by the placings of 34.6 million Shares and 16 million Shares in March 2005 and January 2006 respectively and the Group has raised an aggregate of approximately HK\$113.1 million through such equity financing exercises. The net proceeds were earmarked to apply to repay bank loans and to finance general working capital.

As discussed above, the principal activities of the Company is investment holding. The Group strived to strengthen its financial resources to prepare for grasping good future investment opportunities and make strategic investments as and when appropriate for the purpose of maximizing return to the Shareholders. Given that the net proceeds received from the Rights Issue could strengthen the cash and liquidity position of the Group while giving the Group more financial flexibility to make future possible investments if opportunities arise, the Rights Issue is in the interest of the Company and the Shareholders as a whole.

### 3. Principal terms of the Rights Issue

#### *Terms and arrangements in connection with the Rights Issue and the Underwriting Agreement*

For details in relation to the terms and arrangements in connection with the Rights Issue and the Underwriting Agreement, please refer to the sections headed “Proposed Rights Issue” and “Underwriting arrangements” contained in the Letter from the Board.

We have reviewed the terms and arrangements in connection with the rights issues conducted in the last six months preceding the date of the Announcement and are of the view that the terms and arrangements in connection with the Rights Issue are in line with the market practice.

Furthermore, the Qualifying Shareholders may choose to i) take up their entitlement under the Rights Issue to maintain their respective pro rata shareholding interests in the Company or ii) trade their respective nil-paid rights in the market if they do not wish to subscribe for the Rights Shares or iii) if the Qualifying Shareholders are optimistic about the prospects of the Company, they are entitled to apply for excess Rights Shares.

In view of the above, we consider that the terms and arrangements in connection with the Rights Issue and the Underwriting Agreement are in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM VC CAPITAL

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### *The Subscription Price*

The following table is a comparison of the Subscription Price with the closing price of the Shares over various periods and the theoretical ex-rights price as quoted on the Stock Exchange based on the closing price on the Last Trading Date.

	<b>Closing price HK\$</b>	<b>Discount of Subscription Price to closing price</b>
Last Trading Date	2.125	38.8%
The theoretical ex-rights price based on the closing price as quoted on the Stock Exchange on the Last Trading Date	1.85	29.7%
Average of the five consecutive trading days up to and including the Last Trading Date	2.1	38.1%
Average of the ten consecutive trading days up to and including the Last Trading Date	2.085	37.6%

*Source: The Announcement*

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to the then market environment, prevailing market Share prices and recent financial conditions of the Group.

As shown in the table above, the Subscription Price represented discount ranging from approximately 29.7% to 38.8% to the closing price of various periods.

The Subscription Price also represented a discount of approximately 80.4% to the unaudited consolidated net tangible assets value ("NTA") per Share of approximately HK\$6.64 as at 30 September 2005.

The executive Directors are of the view that the discount of the Subscription Price to the prevailing market prices of the Shares before the Last Trading Date would encourage the Qualifying Shareholders to participate in the Rights Issue and hence maintain their respective shareholdings in the Company and participate in the future growth of the Company.

# LETTER FROM VC CAPITAL

We have reviewed and included, as far as we are aware, all the companies listed on the main board of the Stock Exchange which have announced and implemented rights issues during the last six months preceding the date of the Announcement (the “Comparable Companies”) as follows for comparison:

Rights issue comparable companies	Stock code	Announcement date	Basis of Subscription entitlement	Closing price on the last trading date prior to the ex-entitlement price announcement		Theoretical price	10-day average closing price	NTA per share before completion of the rights issues	Premium/(Discount) of subscription price over/(to)			
				HK\$	HK\$				the closing price on the last trading date prior to the ex-entitlement price announcement	the 10-day average closing price	NTAV per share before completion of the price rights issue	
Garron International Limited	1226	9-Aug-05	5 for 1	0.2000	2.1000	0.5200	2.1800	3.5800	(90.5%)	(61.5%)	(90.8%)	(94.4%)
Capital Estate Limited	193	11-Aug-05	4 for 1	1.0000	2.5000	1.3000	2.2700	3.1800	(60.0%)	(23.1%)	(55.9%)	(68.6%)
Oriental Investment Corporation Limited	735	12-Aug-05	3 for 10	0.1000	0.1290	0.1223	0.1293	0.0570	(22.5%)	(18.2%)	(22.7%)	75.4%
Century Legend (Holdings) Limited	79	15-Aug-05	1 for 5	0.1100	0.1590	0.1508	0.1598	0.0483	(30.8%)	(27.1%)	(31.2%)	127.7%
remen Holdings Limited	59	5-Oct-05	6 for 1	0.3000	0.5500	0.3400	0.5400	0.2900	(45.5%)	(11.8%)	(44.4%)	3.4%
Wonson International Holdings Limited	651	6-Oct-05	4 for 1	0.0500	0.1110	0.0620	0.1150	0.2350	(55.0%)	(19.4%)	(56.5%)	(78.7%)
Heritage International Holdings Limited	412	7-Oct-05	5 for 2	0.0500	0.0930	0.0623	0.1063	0.3510	(46.2%)	(19.7%)	(53.0%)	(85.8%)
Wai Yuen Tong Medicine Holdings Limited	897	10-Oct-05	3 for 1	0.1500	0.2950	0.1863	0.3005	0.8442	(49.2%)	(19.5%)	(50.1%)	(82.2%)
Anex International Holdings Limited	723	27-Oct-05	2 for 5	0.1000	0.0920	0.0888	0.0927	0.2874	8.7%	12.6%	7.9%	(65.2%)
QPL International Holdings Limited	243	1-Nov-05	1 for 5	0.6200	0.7200	0.7000	0.8000	0.3600	(13.9%)	(11.4%)	(22.5%)	72.2%
HKR International Limited	480	3-Nov-05	1 for 6	3.8000	3.7000	3.7100	3.8300	5.7500	2.7%	2.4%	(0.8%)	(33.9%)
Far East Technology International Limited	36	9-Nov-05	1 for 2	0.9150	1.2200	1.1180	1.2190	1.8700	(25.0%)	(18.2%)	(24.9%)	(51.1%)
New World Cyberbase Limited	276	14-Nov-05	2 for 1	0.1500	0.2330	0.1780	0.2330	0.6000	(35.6%)	(15.7%)	(35.6%)	(75.0%)
UDL Holdings Limited	620	29-Dec-05	12 for 5	0.0300	0.0300	N/A	0.0373	(0.0560)	0.0%	N/A	(19.6%)	153.6%
Fintronics Holdings Company Limited	706	11-Jan-06	1 for 1	0.1000	0.2250	0.1630	0.1680	0.6100	(55.6%)	(38.7%)	(40.5%)	(83.6%)
Climax International Company Limited	439	3-Feb-06	1 for 2	0.0100	0.0170	N/A	0.0189	0.0280	(41.2%)	N/A	(47.1%)	(64.3%)
JCG Holdings Limited	626	17-Feb-06	1 for 2	7.3000	7.9000	7.7000	7.9700	3.0800	(7.6%)	(5.2%)	(8.4%)	137.0%
<b>Mean</b>									<b>(33.4%)</b>	<b>(18.3%)</b>	<b>(35.1%)</b>	<b>(12.5%)</b>
<b>Median</b>									<b>(35.6%)</b>	<b>(18.2%)</b>	<b>(35.6%)</b>	<b>(64.3%)</b>
<b>The Company</b>	<b>214</b>	<b>10-Feb-06</b>	<b>1 for 2</b>	<b>1.3000</b>	<b>2.1250</b>	<b>1.8500</b>	<b>2.0850</b>	<b>6.6400</b>	<b>(38.8%)</b>	<b>(29.7%)</b>	<b>(37.6%)</b>	<b>(80.4%)</b>

Source: Stock Exchange website

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## LETTER FROM VC CAPITAL

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As shown in the above table, the Comparable Companies' subscription prices to their respective closing prices on the last trading date prior to the date of announcements for the rights issues ranged from approximately 8.7% premium to 90.5% discount, with the mean and median at approximately 33.4% discount and 35.6% discount respectively. We noted that the discount of the Subscription Price to the closing price of the Shares on the Last Trading Date prior to the date of announcement of the Rights Issue was approximately 38.8% which is within the range of discounts of those of the Comparable Companies and is in line with the mean and median of those of the Comparable Companies.

The Comparable Companies' subscription prices to their respective theoretical ex-right prices ranged from a premium of approximately 12.6% to a discount of approximately 61.5%, with the mean and median of approximately 18.3% discount and approximately 18.2% discount respectively. The discount of the Subscription Price to the theoretical ex-right price of the Shares of approximately 29.7% is within the range of discounts of those of the Comparable Companies, and is higher than the mean and median of those of the Comparable Companies.

The Comparable Companies' subscription prices to their respective ten-day average closing prices ranged from a premium of approximately 7.9% to a discount of approximately 90.8%, with the mean and median of approximately 35.1% discount and approximately 35.6% discount respectively. The discount of the Subscription Price to the ten-day average closing price of the Shares of approximately 38.1% is within the range of discounts of those of the Comparable Companies and is in line with the mean and median of those Comparable Companies.

As illustrated in the above table, it is the common market practice that the subscription price of rights issue represents a discount to the prevailing market price before the announcement in respect of the rights issue is made.

The Comparable Companies' subscription prices to its NTA per share before the completion of the rights issues ranged from a premium of approximately 153.6% to a discount of approximately 94.4%, with the mean and median of approximately 12.5% discount and approximately 64.3% discount respectively. We observed that the discount of the Subscription Price to the unaudited consolidated NTA per Share is within the range of discounts of those of the Comparable Companies and higher than the mean and median of those of the Comparable Companies. We consider that such discount presents a good opportunity for the Qualifying Shareholders to acquire the Rights Shares at an attractive price.

In view of the above, we are of the opinion that the Subscription Price is fair and reasonable so far as the Qualifying Shareholders are concerned.

### *Underwriting commission*

The Underwriters (except Mr. Poon) will receive underwriting commission of 2% of the total Subscription Price of the Rights Shares underwritten, which is estimated to be approximately HK\$1.7 million. We have reviewed the underwriting commission of the

## LETTER FROM VC CAPITAL

Comparable Companies (see the table below) and noted that their underwriting commission ranged from 0% to 3%. On this basis, we consider that the underwriting commission of the Rights Issue is comparable to those Comparable Companies and such rate is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Rights issue comparable companies	Stock code	Announcement date	Underwriting commission
Garron International Limited	1226	9-Aug-05	3.00%
Capital Estate Limited	193	11-Aug-05	1.50%
Oriental Investment Corporation Limited	735	12-Aug-05	2.50%
Century Legend (Holdings) Limited	79	15-Aug-05	2.50%
renren Holdings Limited	59	5-Oct-05	2.50%
Wonson International Holdings Limited	651	6-Oct-05	2.50%
Heritage International Holdings Limited	412	7-Oct-05	2.00%
Wai Yuen Tong Medicine Holdings Limited	897	10-Oct-05	2.50%
Anex International Holdings Limited	723	27-Oct-05	2.50%
QPL International Holdings Limited	243	1-Nov-05	2.50%
			HK\$10,000,000 or 2.5%, whichever is higher
HKR International Limited	480	3-Nov-05	2.50%
Far East Technology International Limited	36	9-Nov-05	1.50%
New World Cyberbase Limited	276	14-Nov-05	2.25%
UDL Holdings Limited	620	29-Dec-05	1.50%
Fintronics Holdings Company Limited	706	11-Jan-06	2.50%
Climax International Company Limited	439	3-Feb-06	0%
JCG Holdings Limited	626	10-Feb-06	0%
<b>Maximum</b>			<b>3%</b>
<b>Minimum</b>			<b>1.5%</b>
<b>The Company</b>	<b>214</b>	<b>10-Feb-06</b>	<b>2.00%</b>

Source: Stock Exchange website

Moreover, Mr. Poon will not receive any underwriting commission in connection with his underwriting commitment under the Rights Issue and hence, the Company will be able to minimize the underwriting fees incurred from the Rights Issue.

In view of the above, we are of the view that the underwriting arrangement is fair and reasonable.



**4. Share price performance and liquidity**

*Share price*

The executive Directors represented that in order to enhance the attractiveness of rights issues, it is not uncommon that the subscription price of rights shares is fixed at a discount to the prevailing market prices of the relevant shares.

We have tabulated the monthly highest closing price, monthly lowest closing price and average daily closing price per Shares in each of the twelve full calendar months prior to the date of Announcement to and including the Latest Practicable Date (the “Review Period”) as follows:

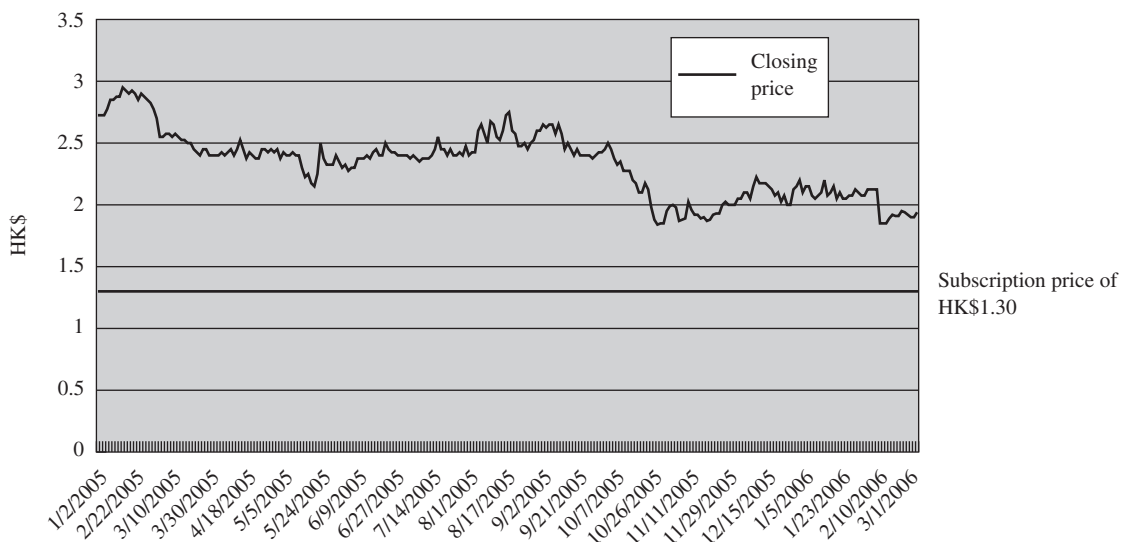
<b>Month</b>	<b>Highest monthly closing price per Shares HK\$</b>	<b>Lowest monthly closing price per Shares HK\$</b>	<b>Average daily closing price per Share HK\$</b>
<b>2005</b>			
February	2.95 (the highest)	2.73	2.85
March	2.83	2.40	2.54
April	2.53	2.38	2.42
May	2.50	2.15	2.34
June	2.50	2.28	2.38
July	2.55	2.35	2.41
August	2.75	2.40	2.55
September	2.65	2.38	2.50
October	2.50	1.84 (the lowest)	2.18
November	2.03	1.87	1.94
December	2.23	2.00	2.10
<b>2006</b>			
January	2.20	2.05	2.10
February ( <i>Note 1</i> )	2.125	1.85	1.98
The Latest Practicable Date	1.94	1.94	1.94

*Note 1 Trading in the Shares was suspended from 8 February 2006 to 10 February 2006 both days inclusive.*

*Source: Bloomberg*

## LETTER FROM VC CAPITAL

Set out below is a chart showing the daily closing price of the Shares for the Review Period.

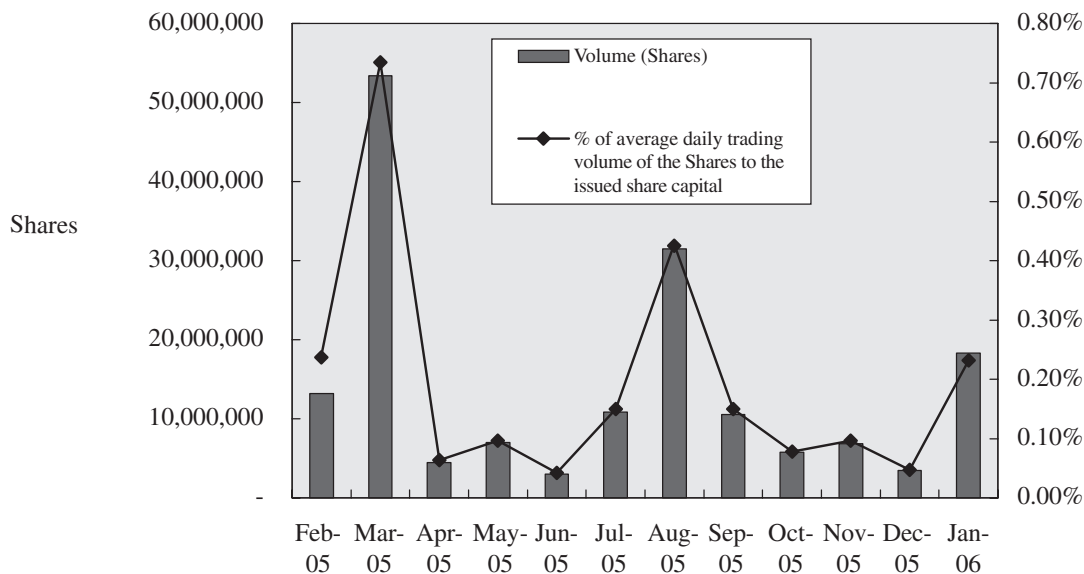


Source: Bloomberg

We noted that during the Review Period, the daily closing prices of the Shares were within the range of HK\$2.95 per Share to HK\$1.84 per Share. The Shares were traded at price levels substantially higher than the Subscription Price of HK\$1.3 per Rights Share during the Review Period. As discussed above, it is a common market practice for the investors to subscribe rights issue shares at a discount to the prevailing market price. Accordingly, we consider that the Rights Issue provides a good investment opportunity for the Qualifying Shareholders to acquire Shares at a favourable price level.

*Liquidity*

The chart below set out the monthly trading volume of the Shares and the average daily trading volume of the Shares to the issued share capital of the Company for the twelve full calendar months prior to the date of the Announcement (the “12-month Period”).



Volume (Shares)	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06
% of average daily trading volume of the Shares to the issued share capital	0.24%	0.73%	0.06%	0.10%	0.04%	0.15%	0.43%	0.15%	0.08%	0.10%	0.05%	0.23%

Source: Bloomberg

We noted that the trading volume of the Shares substantially increased in March 2005, August 2005 and January 2006. In this regard, the executive Directors confirm that, save for the entering into the placing arrangements in respect of a total of 34.6 million Shares in March 2005 and 16 million Shares in January 2006, they are not aware of any other reasons for the increase in the trading volume of the Shares.

The trading volume during the 12-month Period was thin. The percentage of the average daily trading volume of the Shares to the issued share capital of the Company ranged from approximately 0.04% to approximately 0.73%.

Accordingly, the Shareholders may experience difficulty on purchasing Shares in the market. We consider that the Rights Issue provides the Qualifying Shareholders a good opportunity to purchase Shares through subscription of the Rights Shares and purchase of the nil-paid Rights Shares in the market.

**5. Dilution effect on the Shareholders**

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the completion of the Rights Issue.

For those Qualifying Shareholders who do not exercise their rights to subscribe for the Rights Shares in full, depending on the extent to which they take up their entitlements, and those Excluded Shareholders who will not be entitled to the subscription of the Rights Issue, their shareholding interests in the Company will be diluted immediately following completion of the Rights Issue to a maximum dilution of approximately 33.3%, assuming no Outstanding Options are exercised on or before the Record Date or approximately 37.0% assuming all Outstanding Options are exercised on or before the Record Date.

For those Qualifying Shareholders who do not exercise their rights to take up in full or part of their Rights Shares entitlements, they may have the opportunity to realize all or part of their nil-paid Rights Shares in the market, subject to the then prevailing market conditions. On the other hand, for those Qualifying Shareholders who wish to increase their shareholdings in the Company under the Rights Issue, they may also apply for excess Rights Shares.

We are of the opinion that the terms of the Rights Issue are in line with the market practice for rights issues and there are adequate arrangements for the Qualifying Shareholders to maintain their proportionate interest in the Company should they wish to do so. We consider that the possible dilution effect of the Shareholders under the Rights Issue to be acceptable.

**6. Financial effects of the Rights Issue**

*NTA*

The effect on the unaudited pro forma net tangible assets of the Group immediately after completion of the Rights issue are set out in appendix II to the Circular.

The unaudited consolidated NTA per Share prior to the completion of the Rights Issue was approximately HK\$6.64. Upon completion of the Rights Issue, the unaudited pro forma NTA per Share will decrease to HK\$4.77 per Share by approximately 28.2% based on the minimum number of Rights Shares issued immediately after the Rights Issue, assuming all Shareholders take up their respective provisionally allotments of the Rights Shares and no Outstanding Options are exercised on or before the Record Date.

## LETTER FROM VC CAPITAL

We have compared the NTA per share before the rights issue to the pro forma NTA per share after the completion of the rights issue of the Comparable Companies:

Rights issue comparable companies	Stock code	Announcement date	Increase/ (decrease) in NTA per share after the completion of the rights issue
Garron International Limited	1226	9-Aug-05	(78.9%)
Capital Estate Limited	193	11-Aug-05	(59.7%)
Oriental Investment Corporation Limited	735	12-Aug-05	15.8%
Century Legend (Holdings) Limited	79	15-Aug-05	19.3%
renren Holdings Limited	59	5-Oct-05	(0.5%)
Wonson International Holdings Limited	651	6-Oct-05	(65.1%)
Heritage International Holdings Limited	412	7-Oct-05	(75.5%)
Wai Yuen Tong Medicine Holdings Limited	897	10-Oct-05	(62.1%)
Anex International Holdings Limited	723	27-Oct-05	(19.1%)
QPL International Holdings Limited	243	1-Nov-05	11.1%
HKR International Limited	480	3-Nov-05	(5.1%)
Far East Technology International Limited	36	9-Nov-05	(17.6%)
New World Cyberbase Limited	276	14-Nov-05	(51.6%)
UDL Holdings Limited	620	29-Dec-05	102.7%
Fintronics Holdings Company Limited	706	11-Jan-06	(42.6%)
Climax International Company Limited	439	3-Feb-06	N/A
JCG Holdings Limited	626	17-Feb-06	N/A
<b>Mean</b>			<b>(21.9%)</b>
<b>Median</b>			<b>(19.1%)</b>
<b>The Company</b>	<b>214</b>	<b>10-Feb-06</b>	<b>(28.2%)</b>

Source: Stock Exchange website

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## LETTER FROM VC CAPITAL

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As shown in the above table, the changes of the NTA per shares for the Comparable Companies ranged from increase in NTA per share of approximately 102.7% to decrease in NTA per share of approximately 78.9%, with the mean and median at a decrease of approximately 21.9% and approximately 19.1% respectively. We noted that the decrease of the unaudited pro forma NTA per Share was approximately 28.2% which is within the range of decrease of those of the Comparable Companies and is slightly higher than the mean and median of those of the Comparable Companies.

The decrease in unaudited pro forma NTA per Share is mainly due to the fact that the Subscription Price for the Rights Issue is at a discount of approximately 80.4% to the unaudited consolidated NTA per Share prior to the Rights Issue. In view of the fact that the Rights Issue will enlarge the capital base of the Group and increase the Group's net assets, we consider that such decrease justifiable.

### *Gearing ratio/working capital*

The current ratio (calculated as current assets divided by current liabilities) and gearing ratio (calculated as total bank borrowings divided by shareholders funds) of the Company as at 30 September 2005 were 3.8 and 0.02 respectively.

The working capital position of the Group will be increased by the amount of approximately HK\$160 million or HK\$170 million under the Rights Issue. The current ratio and gearing ratio of the Company increase to between approximately 6.3 and 6.5 and decrease to approximately 0.01 and 0.01 respectively depending on the amount of net proceeds received from the Rights Issue.

In this regard, we consider that the decrease in gearing ratio and increase in working capital will enhance the financial flexibility for the Group, which is in the interests of the Company and the Shareholders as a whole.

### **7. Application for Whitewash Waiver**

Mr. Poon and parties acting in concert with him are beneficially interested in 80,649,736 Shares, representing approximately 31.7% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Poon has agreed to subscribe for or take up 23,314,625 Rights Shares (assuming all the Outstanding Options are not exercised on or before the Record Date) or 29,941,625 Rights Shares (assuming all the Outstanding Options are exercised on or before the Record Date) that are not subscribed for under the Rights Issue pursuant to the Underwriting Agreement.

The executive Directors confirmed that the participation of Mr. Poon in the Underwriting Agreement for no consideration was an effort to attract independent underwriters to participate in the Rights Issue by reducing their risk exposures and demonstrate his financial supports to the Company so as to facilitate the completion of the Rights Issue.

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## LETTER FROM VC CAPITAL

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Shareholders should note that Mr. Poon will take up his respective proportionate underwritten un-subscribed Rights Shares in accordance with the Underwriting Agreement only if the Qualifying Shareholders do not take up their respective entitlements to the Rights Shares and such Rights Shares are not fully subscribed for either through excess application by the Qualifying Shareholders who are interested in the Rights Shares or through acquisition of nil-paid Rights Shares by potential investors in the market.

Assuming all the Qualifying Shareholders have taken up their entitlements to the Rights Issues, there would be no change in the shareholding structure of the Company after the completion of the Rights Issue. Mr. Poon and parties acting in concert with him will retain their respective shareholding interest in the Company as before the Rights Issue.

Assuming Mr. Poon has taken up his maximum obligation, in the event that all the Outstanding Options are exercised in full on or before the Record Date, the aggregate shareholding of Mr. Poon and parties in concert with him in the Company will possibly increase by approximately 6.7% from approximately 31.7% to approximately 38.4%. It represents an approximately 4.7% increase over and above the limit allowed by the 2% creeper (38.4% less 33.7%). Under Rule 26 of the Takeover Code, Mr. Poon and parties in concert with him will be required to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by him and parties in concert with him.

In addition, assuming that only the Outstanding Options attached thereto subscription rights to subscribe for 1,718,000 Shares held by each of Mr. Fung Siu To, Clement and Mr. Lim Yin Cheng, being executive Directors and brothers-in-law of Mr. Poon, are exercised on or before the Record Date while the remaining Outstanding Options are not exercised on or before the Record Date, the subscription for and underwriting of the Rights Shares under the Rights Issue by Mr. Poon may result in the aggregate shareholdings of Mr. Poon and parties acting in concert with him in the Company being increased from approximately 31.7% to approximately 38.6%. This represents an approximately 4.9% increase over and above the limit allowed by the 2% creeper (38.6% less 33.7%) and may similarly trigger a general offer obligation for Mr. Poon and parties acting in concert with him.

A formal application has been made by Mr. Poon to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders at the SGM by way of poll, which Mr. Poon and parties acting in concert with him and Shareholders who are involved in or interested in the Underwriting Agreement and the Whitewash Waiver will abstain from voting on the relevant resolution. Please refer to the section headed "Whitewash Waiver" contained in the Letter from the Board for further details of the Whitewash Waiver.

As at the Latest Practicable Date, Mr. Poon and parties acting in concert with him are beneficially interested in approximately 31.7% of the issued share capital of the Company and Mr. Poon and parties acting in concert with him is the single largest group of Shareholders. He is the founder of the Group and has exerted significance influence over the operations of the Company. As stated in the Letter from the Board, Mr. Poon represented that he will continue the existing business of the Group and not to introduce any major changes to the Group's business, including any redeployment of the Group's fixed assets. Mr. Poon has no plan to cause any material changes to the

continued employment of the Group's employees. Should Mr. Poon and parties acting in concert with him increase their shareholding interests in the Company up to approximately 38.6% as a result of the subscription for and the underwriting of the Rights Shares under the Rights Issue by Mr. Poon, this increase does not cause material change to the operations of the Company.

The approval of the Whitewash Waiver is a condition precedent to the completion of the Rights Issue provided that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the condition imposed thereon is not fulfilled, the Rights Issue will not proceed. In this circumstance and having regard to the terms of the Rights Issue as fair and reasonable as far as the Independent Shareholders are concerned and there is no material change in the operations of the Company, we do not consider that the Independent Shareholders would benefit from voting against the Whitewash Waiver and, therefore, we advise the Independent Shareholders to vote in favour of the Whitewash Waiver.

### 8. **Recommendation**

Having regard to the abovementioned principal factors and reasons, in particular:

- the Rights Issue facilitates the Company in a prudent way to i) grasp good future investment opportunities and make strategic investment as and when appropriate in consideration of the fact that the Rights Issue will be able to enhance the working capital position of the Group, which in turn will be beneficial to the Group in the long run and ii) strengthen its financial position;
- the Rights Issue to be a more appropriate means of financing which enables the Qualifying Shareholders to maintain their proportionate interests in the Company;
- the net proceeds from the Rights Issue will enhance the Group's financial flexibility to make future possible investments if opportunities arise;
- the discount of the Subscription Price to the closing price per Share on the Last Trading Date, theoretical ex-right price per Share, ten-day average closing price per Share and unaudited NTA per Share is in line with those of the Comparable Companies;
- the adequate arrangements for the Qualifying Shareholders to maintain their proportionate interest in the Company should they wish to do so, with a justifiable maximum potential dilution effect of approximately 33%, assuming no Outstanding Options are exercised on or before the Record Date; and
- the net proceeds from the Rights Issue will strengthen the cash and working capital position of the Group and enlarge the capital base of the Company;



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## LETTER FROM VC CAPITAL

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we consider that the terms of the Whitewash Waiver are fair and reasonable and the Whitewash Waiver is in the overall interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution in relation to the Whitewash Waiver at the SGM.

Yours faithfully,

For and on behalf of

**VC Capital Limited**

**Philip Chau**  
*Managing Director*

**Keith Lou**  
*Director*

## 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated profit and loss accounts and financial positions for each of the three financial years ended 31 March 2003, 2004 and 2005 as extracted from the annual reports of the Group for the respective years. The auditors' reports as set out in the annual reports of the Group for each of the three years ended 31 March 2005 were unqualified. The unaudited condensed consolidated profit and loss account of the Group for the six months ended 30 September 2005 as well as the financial position of the Group as at 30 September 2005 as extracted from the interim report dated 20 December 2005 issued by the Company are also set out below. There was no extraordinary or exceptional item affecting the financial statements of the Group for the three years ended 31 March 2005 and the condensed financial statements of the Group for the six months ended 30 September 2005.

	<b>Results of the Group</b>				
	<b>for the year ended 31 March</b>			<b>for the six months ended 30 September</b>	
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(restated)	
Turnover	1,214,263	767,390	553,180	361,158	10,867
(Loss) / profit before taxation	(505,181)	(302,108)	29,887	99,158	1,306
Taxation (charge) / credit	746	908	(45,358)	3,464	753
(Loss) / profit for the year / period	(504,435)	(301,200)	(15,471)	102,622	2,059
Minority interests	130,781	72,955	(145,499)	(63,933)	—
(Loss) / profit attributable to shareholders of the Company	<u>(373,654)</u>	<u>(228,245)</u>	<u>(160,970)</u>	<u>38,689</u>	<u>2,059</u>
Total dividend and distribution	<u>—</u>	<u>—</u>	<u>14,081</u>	<u>3,997</u>	<u>—</u>
Dividend and distribution per share	<u>—</u>	<u>—</u>	<u>6.3 cents</u>	<u>2 cents</u>	<u>—</u>
(Loss) / earnings per share					
Basic	(HK\$2.49)	(HK\$1.49)	(HK\$0.86)	22.3 cents	0.88 cents
Diluted	<u>N/A</u>	<u>N/A</u>	<u>(HK\$0.89)</u>	<u>17.5 cents</u>	<u>0.86 cents</u>

	Assets and liabilities of the Group			
	as at 31 March			as at 30
	2003	2004	2005	September
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Total assets	7,913,505	7,716,429	2,107,750	1,656,644
Less:				
Total liabilities	3,492,466	3,381,006	105,943	73,087
Minority interests	<u>2,179,276</u>	<u>2,245,000</u>	—	—
Total net assets attributable to shareholders of the Company	<u>2,241,763</u>	<u>2,090,423</u>	<u>2,001,807</u>	<u>1,583,557</u>

*Note:*

The audited accounts of the Group for the three years ended 31 March 2003, 2004 and 2005 have been prepared in accordance with the Statements of Standard Accounting Practices then in effect. The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) (collectively the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The key changes have been discussed in note 2 of the condensed interim consolidated accounts for the six months ended 30 September 2005 as set out on pages 105 to 107 of this appendix. The new HKFRSs principally affect the accounting policies of the Group in respect of investment properties (and the related deferred taxation on revaluation surpluses), leasehold land in Hong Kong and financial instruments. The major effects of the adoption of the new HKFRSs on the financial summary are set out below:

	Results of the Group		
	For the year ended 31 March		
	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000
Decrease in profit before taxation	(290,083)	(49,023)	(4,520)
Decrease in taxation	44,105	2,638	49,188
(Decrease)/increase in profit for the year	(245,978)	(46,385)	44,668
Decrease in minority interests	<u>153,749</u>	<u>15,655</u>	<u>31,911</u>
(Decrease)/increase in results attributable to shareholders of the Company	<u>(92,229)</u>	<u>(30,730)</u>	<u>76,579</u>

	Assets and liabilities of the Group		
	As at 31 March		
	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000
Decrease in total assets	(865,898)	(1,087,070)	(432,640)
Increase in total liabilities	(44,645)	(27,716)	—
Decrease in minority interests	<u>525,609</u>	<u>647,876</u>	—
Decrease in net assets attributable to shareholders of the Company	<u>(384,934)</u>	<u>(466,910)</u>	<u>(432,640)</u>

## 2. AUDITED FINANCIAL STATEMENTS

The following is the audited consolidated profit and loss accounts of the Group for the two years ended 31 March 2005, the audited consolidated balance sheets of the Group and the audited balance sheets of the Company as at 31 March 2004 and 31 March 2005, the audited consolidated statements of changes in equity of the Group and the audited consolidated cash flow statements of the Group for the two years ended 31 March 2005, together with accompanying notes to the accounts extracted from the annual report of the Company for the year ended 31 March 2005:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT****For the year ended 31st March 2005**

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Turnover	3	553,180	767,390
Cost of sales		<u>(382,783)</u>	<u>(582,988)</u>
Gross profit		170,397	184,402
Administrative expenses		(95,065)	(127,234)
Other income and charges	4	<u>(54,460)</u>	<u>(84,651)</u>
Operating profit/(loss)	5	20,872	(27,483)
Finance costs	6	(73,283)	(117,843)
Share of profits less losses of			
Jointly controlled entities		162,359	(45,296)
Associated companies		<u>(80,061)</u>	<u>(111,486)</u>
Profit/(loss) before taxation		29,887	(302,108)
Taxation (charge)/credit	9	<u>(45,358)</u>	<u>908</u>
Loss after taxation		(15,471)	(301,200)
Minority interests		<u>(145,499)</u>	<u>72,955</u>
Loss attributable to shareholders	10	<u>(160,970)</u>	<u>(228,245)</u>
Dividend and distribution	11	<u>14,081</u>	<u>—</u>
Loss per share			
Basic	12	HK\$0.86	HK\$1.49
Diluted	12	<u>HK\$0.89</u>	<u>N/A</u>

## CONSOLIDATED BALANCE SHEET

As at 31st March 2005

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Fixed assets	13	1,362	4,643,036
Jointly controlled entities	15	7,832	263,382
Associated companies	16	1,735,697	456,294
Long term investments	17	68,633	1,601
Goodwill	18	—	30,887
Mortgage loans receivable	19	—	40,160
Deferred tax assets	30	5,303	62,517
<b>Current assets</b>			
Properties held for/under development for sale	20	—	1,029,149
Completed properties held for sale	20	—	608,082
Hotel and restaurant inventories		—	2,615
Debtors and prepayments	21	131,426	329,043
Other investments	22	28,654	91,933
Tax recoverable		—	321
Bank balances and cash	23	128,843	157,409
		<u>288,923</u>	<u>2,218,552</u>
<b>Current liabilities</b>			
Creditors and accruals	24	39,347	305,877
Short term bank loans and overdrafts			
Secured		14,676	158,150
Unsecured		—	31,941
Convertible notes	28	—	77,600
Current portion of long term loans	29	37,372	118,446
Taxation		—	9,452
		<u>91,395</u>	<u>701,466</u>
<b>Net current assets</b>		<u>197,528</u>	<u>1,517,086</u>
		<u>2,016,355</u>	<u>7,014,963</u>
<b>Financed by:</b>			
Share capital	25	23,452	17,349
Reserves	26	1,978,355	2,073,074
<b>Shareholders' funds</b>		2,001,807	2,090,423
Convertible bonds	27	—	290,000
Long term loans	29	6,226	2,229,216
Deferred tax liabilities	30	11	53,401
Minority interests and loans	31	8,311	2,351,923
		<u>2,016,355</u>	<u>7,014,963</u>

## BALANCE SHEET

As at 31st March 2005

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Subsidiaries	14	3,429,508	3,617,785
Deferred tax assets	30	171	196
Current assets			
Debtors and prepayments		109	583
Bank balances and cash		39,098	3
		39,207	586
		-----	-----
Current liabilities			
Creditors and accruals		695	885
Convertible notes	28	—	31,600
		695	32,485
		-----	-----
Net current assets/(liabilities)		38,512	(31,899)
		3,468,191	3,586,082
		3,468,191	3,586,082
Financed by:			
Share capital	25	23,452	17,349
Reserves	26	3,444,739	3,568,733
Shareholders' funds		3,468,191	3,586,082

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2005

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Cash flows from operating activities</b>			
Net cash (used in)/generated from operations	35(a)	(337,105)	5,864
Net tax refunded		98	433
Interest paid		<u>(67,097)</u>	<u>(124,649)</u>
Net cash used in operating activities		<u>(404,104)</u>	<u>(118,352)</u>
<b>Cash flows from investing activities</b>			
Interest received		6,487	38,103
Dividends received from an jointly controlled entity		165,330	—
Dividends received from other investments		142	1,207
Proceeds on disposal of other investments		18,640	90,528
Purchase of other investments		(20,116)	(50,484)
Addition to fixed assets		(1,954)	(258)
Disposal of subsidiaries	35(b)	(7,493)	—
Proceeds on partial disposal of interest in a listed subsidiary		27,100	6,570
Repurchase of own share by a listed subsidiary		—	(867)
Proceeds on disposal of fixed assets		2,900	—
Proceeds on disposal of an associated companies		—	2,000
(Increase)/decrease in advances to associated companies		(25,274)	90,754
Acquisition of associated companies		—	(4,000)
Acquisition of a jointly controlled entity		—	(11,631)
Decrease in advances to jointly controlled entities		<u>126,838</u>	<u>17,608</u>
Net cash from investing activities		<u>292,600</u>	<u>179,530</u>
Net cash (used in)/generated before financing activities		<u>(111,504)</u>	<u>61,178</u>

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Cash flows from financing activities</b>			
Decrease in restricted bank balances		6,350	1,228
Drawdown of long term bank loans		1,449,052	295,600
Repayment of long term bank loans		(1,209,303)	(476,351)
Issue of convertible notes		—	46,000
Redemption of convertible notes		(46,000)	—
Placement of new shares		84,146	—
Exercise of share options of a listed subsidiary		668	—
Dividend paid to shareholders		(3,743)	—
Dividend paid to minority shareholders		(4,042)	—
Decrease in short term bank loans		(102,599)	(9,452)
Increase/(decrease) in loans from minority shareholders of subsidiaries		<u>2,206</u>	<u>(4,412)</u>
Net cash generated from/(used in) financing activities	35(c)	<u>176,735</u>	<u>(147,387)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		24,798	111,152
Changes in exchange rates		<u>977</u>	<u>(145)</u>
Cash and cash equivalents at end of the year		<u>91,006</u>	<u>24,798</u>
<b>Analysis of the balances of cash and cash equivalents</b>			
Bank balances (excluding pledged deposits and balances held in trust)		95,682	92,291
Bank overdrafts		<u>(4,676)</u>	<u>(67,493)</u>
		<u>91,006</u>	<u>24,798</u>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2005

	<i>Note</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Balance at beginning of the year		2,090,423	2,241,763
Exchange differences arising on translation of accounts of overseas subsidiaries, jointly controlled entities and associated companies	26	7,778	10,105
Revaluation surplus on investment properties	26	39,994	—
Revaluation surplus on hotel properties, net of taxation	26	32,015	44,580
Deemed disposal of interest in a listed associated company	26	(92,108)	—
Disposal of a listed subsidiary	26	(8,253)	—
Partial disposal of interest in a listed subsidiary	26	(19,075)	(6,179)
Net (losses)/gains not recognised in the profit and loss account		(39,649)	48,506
Conversion of convertible notes	25, 26	31,600	28,399
Scrip dividend	25, 26	254	—
Placement of new shares	25, 26	84,146	—
Dividends paid	26	(3,997)	—
Loss for the year attributable to shareholders	26	<u>(160,970)</u>	<u>(228,245)</u>
Balance at end of the year		<u>2,001,807</u>	<u>2,090,423</u>

## NOTES TO THE ACCOUNTS

## 1 CHANGE IN COMPOSITION OF THE GROUP

During the year, the Group's interest in Asia Standard International Group Limited ("Asia Standard") decreased from 52.8% to 40.5% as the results of a series of transactions and events set out below:

- (a) In November 2004, the Group disposed of 80 million shares in Asia Standard and the Group's interest in Asia Standard decreased from 52.8% to 50.9%;
- (b) In January 2005, the Group further disposed of 35 million shares in Asia Standard with its interest decreased to 49.99%. Asia Standard has been reclassified and accounted for as an associated company instead of a subsidiary thereafter;
- (c) In February and March 2005, Asia Standard issued 820 million and 145 million new shares for the subscription by the third parties and a substantial shareholder of Asia Standard respectively. The Group's interest in Asia Standard was further diluted to 40.5%.

The results of Asia Standard has been consolidated into the profit and loss accounts of the Group up to the date of disposal. The results of Asia Standard after the date of disposal and the financial position of Asia Standard at balance sheet date have been equity accounted for in the accounts of the Group.

## 2 PRINCIPAL ACCOUNTING POLICIES

## (a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment, hotel and certain other properties and in accordance with accounting principles generally accepted in Hong Kong.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The new HKFRSs mainly affecting the Group are:

HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 3	Revenue — Pre-completion Contracts for the Sale of Development Properties
HKAS-Int 21	Income taxes — Recovery of Revalued Non-Depreciable Assets

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March 2005. The Group is assessing the impact of these new HKFRSs and has so far identified that they will not affect the cash flows of the Group.

The changes mainly affect the Group through its associated company and the more significant differences between new HKFRSs and current accounting policies that are expected to affect the Group's profit and loss account and balance sheet are as follows:

(i) *Investment properties*

The change in fair value of the investment properties and deferred taxation on the corresponding revaluation surplus or deficit will be recognised in the profit and loss account. Revaluation movement on a portfolio basis has been accounted for in the equity under the current accounting policy and no deferred taxation was provided for thereon.

(ii) *Hotel properties*

Land and buildings will be accounted for separately. Hotel buildings will be stated at cost less accumulated depreciation and impairment, while the underlying freehold land will be accounted for as property, plant and equipment and stated at cost less impairment, the underlying leasehold land will be accounted for as described in note (iii) below. Hotel properties have been stated at valuation without depreciation under the current accounting policy.

(iii) *Leasehold land in Hong Kong*

Leasehold land in Hong Kong will no longer be accounted for as property, plant and equipment. Instead, it will be accounted for as prepayment of lease and stated at cost and recognised as an expense on a straight-line basis over the lease term. Leasehold land has been stated at cost less impairment, if any, under the current accounting policy.

(iv) *Pre-sale of development properties*

Stage of completion method will no longer be used to recognise revenue from pre-sale of development properties, instead revenue will be recognised upon completion of those properties.

(v) *Share options*

The Group will be required to determine the fair value of all share options to employees and recognised as expense in the profit and loss account over the vesting period. This treatment will apply to share options granted after 7th November 2002 and had not yet vested on 1st January 2005. Under the current accounting policy, share options to employees were not recorded in the financial statement.

(vi) *Financial instruments*

Under the new HKFRSs, financial instruments will be carried at either amortised cost or fair value, depending on their classification. Depending on the classification of the financial instruments, movements in fair value will be either charged to net profit or loss or taken to equity in accordance with the standard. In addition, all derivatives, including those embedded in non-derivatives host contracts will be recognised in the balance sheet at fair value. This will result in a change to the Group's current accounting policies in respect of classification, measurement and recognition of financial instruments.

The Group will be continuing with the assessment of the impact of the new HKFRSs and other significant changes may be identified as a result.

(b) **Basis of consolidation**

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 31st March and the Group's share of post-acquisition profits less losses, and reserves, of its jointly controlled entities and associated companies.

The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the effective dates of acquisition and to the effective dates of disposal respectively.

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill/negative goodwill which remains unamortised, and those previously taken to reserves and any related exchange reserve.

All material intra-group transactions and balances have been eliminated on consolidation.

(c) **Subsidiaries**

Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the companies.

In the Company's balance sheet, investments in subsidiaries are carried at cost. Provision is made when the Directors consider that there is a long term impairment in value.

(d) **Jointly controlled entities**

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. The Group's investments in jointly controlled entities are carried in the consolidated balance sheet at the Group's share of net assets. The Group continues to share losses incurred by jointly controlled entities, which is over and above the carrying amounts of the investments, to the extent that the Group has guaranteed obligations or other commitments of these jointly controlled entities.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost. Provision is made when the Directors consider that there is a long term impairment in value.

(e) **Associated companies**

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest is held for the long term and significant influence is exercised in its management. The Group's investments in associated companies are included in the consolidated balance sheet at the Group's share of net assets. The Group continues to share losses incurred by associated companies, which is over and above the carrying amounts of the investments, to the extent that the Group has guaranteed obligations or other commitments of these associated companies.

In the Company's balance sheet, investments in associated companies are carried at cost. Provision is made when the Directors consider that there is a long term impairment in value.

(f) **Goodwill**

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the effective date of acquisition.

Goodwill on acquisitions, which occurred on or prior to 31st March 2001, was taken directly to reserves. The carrying amount of goodwill, including those previously taken directly to reserves, is reviewed annually and provision is only made where, in the opinion of the Directors, there is a long term impairment in value.

Goodwill arising on acquisitions occurring after 31st March 2001 is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years.

Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the consolidated profit and loss account in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

(g) **Other investments**

Other investments are stated in the balance sheet at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair values are recognised in the profit and loss account. Profits or losses on disposals of such investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) **Fixed assets**

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and are held for investment purpose.

Investment properties held on leases of more than twenty years are stated at valuation. Independent professional valuations are carried out at intervals of not more than three years by independent valuers; in each of the intervening years, valuations are undertaken by either independent professional valuers or professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to investment properties revaluation reserve; decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to the profit and loss account. Upon disposal of an investment property, the related revaluation surplus is released from the investment properties revaluation reserve and included in calculating the profit or loss on disposal.

No depreciation is provided in respect of investment properties held on leases of more than twenty years.

(ii) *Hotel properties*

Hotel properties are interests in land and buildings and their integral fixed plant, fixtures and fittings which are collectively used in the hotel operation. The initial cost of the hotel operating equipment (linen, silverware and chinaware) was included in the cost of hotel properties and subsequent additions or replacements are charged to the profit and loss account as incurred. Hotel properties are revalued annually based on independent professional valuations on an open market value basis. Changes in the values of hotel properties are dealt with as movements in the hotel properties revaluation reserve. If the reserve is insufficient to cover a revaluation deficit on an individual basis, the excess of the deficit is charged to the profit and loss account.

No depreciation is provided on hotel properties held on leases of more than twenty years. It is the Group's practice to maintain hotel buildings in a continual state of sound repairs and to make improvements thereto from time to time and accordingly the Directors consider that, given the estimated lives of the hotel properties, any depreciation charge would be insignificant due to their high residual value. Such expenditure on repairs and maintenance is charged to the profit and loss account as incurred.

(iii) *Other properties*

Other properties are interests in land and buildings other than investment or hotel properties and are stated at cost less accumulated depreciation and provision for significant impairment in value or carried at valuation.

In respect of land and buildings stated at valuation, independent professional valuations are carried out at intervals of not more than three years by independent valuers; in each of the intervening years, the Directors review the carrying value of the other properties and adjustment is made where there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to revenue reserve.

Depreciation is provided on other properties, using the straight line method, to write off their cost or valuation over their estimated useful lives as follows:

Leasehold land	Unexpired term of leases
Buildings	50 years

Upon revaluation of other properties, the accumulated depreciation at the date of revaluation is eliminated against the cost of the other properties and the resulting net amount is restated to the revalued amount of the other properties. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the changes in the carrying amount of the other properties as a result of a revaluation which is dealt with on the same basis as changes in valuation of the other properties as mentioned above.

(iv) *Properties under development for investment*

Properties under development for investment are stated at cost and are included in fixed assets. Cost comprises land at cost, construction costs, interest and other direct expenses capitalised. Provision is made when the Directors consider that there is a long term impairment in value. On completion, the properties are transferred to investment or hotel properties respectively.

No depreciation is provided on properties under development for investment.

(v) *Other fixed assets*

Other fixed assets are stated at cost less accumulated depreciation and provision for significant impairment in value. Depreciation is provided on other fixed assets, using the straight line method, to write off their costs over their estimated useful lives of 4 to 10 years.

Profits or losses on disposal of other fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

(vi) *Impairment of fixed assets*

The carrying amounts of other fixed assets and properties which are stated at cost less accumulated depreciation are reviewed regularly. When the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts. Expected future cash flows have been discounted in determining the recoverable amount.

**(i) Properties held for/under development for sale**

Properties held for/under development for sale are included in current assets and comprise land at cost, construction costs, interest and other direct costs attributable to such properties and attributable profits taken to-date, less sales instalments received and allowances for any foreseeable losses.

When a development property is sold in advance of completion, profit is recognised over the course of the development and is computed each year as a proportion of the total estimated profit to completion; the proportion used being the lower of the proportion of the construction works completed and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds.

Where purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion which are forfeited are credited to operating profit; and any profits recognised up to the date of completion are written back.

**(j) Completed properties held for sale**

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises land at cost, construction costs, interest and other direct expenses capitalised during the course of development. Net realisable value is determined by the Directors based on prevailing market conditions.

**(k) Hotel and restaurant inventories**

Hotel and restaurant inventories comprise consumables and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis.

**(l) Provisions**

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**(m) Employee benefits****(i) *Employee leave entitlements***

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) *Pension obligations***

The Group contributes to several 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.

**(n) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**(o) Revenue recognition**

Revenue is recognised when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably on the following bases:

**(i) *Properties held for/under development for sale***

Revenue from sales of development properties for sale is recognised as set out in note (i) above.

**(ii) *Completed properties held for sale***

Revenue from sales of completed properties held for sale is recognised upon completion of the sale and purchase contracts.

**(iii) *Investment properties***

Rental income from investment properties is recognised on a straight line basis over the terms of the respective leases.

**(iv) *Hotel, travel agency and management services businesses***

Revenue from hotel and catering operations is recognised upon provision of services.

Revenue from sale of air tickets and hotel reservation service is recognised when customers confirm the booking.

Management fee income is recognised when services are rendered.

**(v) *Investment and others***

Revenue from sale of securities is recognised when the significant risks and rewards of ownership have been transferred to the purchaser.

Interest income is recognised on a time proportion basis that takes into account the principal amount outstanding and the effective interest rate applicable.

Dividend income from investments is recognised when the shareholder's right to receive payment is established.



(p) **Foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss accounts.

The profit and loss accounts of subsidiaries, jointly controlled entities and associated companies denominated in foreign currencies are translated at the weighted average exchange rates during the year and balance sheets are translated at the rates of exchange ruling at the balance sheet date. Exchange difference arising from the translation of net investments in these subsidiaries, jointly controlled entities and associated companies are dealt with as a movement in reserve.

(q) **Borrowing costs**

Borrowing costs incurred on properties under development that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of the properties under development.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable, net of incentives received from the lessors, under such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(s) **Cash and cash equivalents**

Cash and cash equivalents are stated in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, cash investment with a maturity of three months or less from the date of investment and bank overdrafts.

### 3 **TURNOVER AND SEGMENT INFORMATION**

The Group and its associated companies are principally engaged in property development and investment, hotel, travel agency and management services operations. Turnover comprises gross revenues from property sales, property leasing, hotel and travel agency, management services, investment and interest income.

## Primary reporting format — business segments

The Group and its associated companies are organised into four main business segments, comprising property sales, property leasing, hotel and travel and investments. There is no other significant identifiable separate business segment. Segment revenue from external customers is after elimination of inter-segment revenues. 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. Segment assets consist primarily fixed assets, other noncurrent assets, hotel inventories, properties, debtors, prepayments and other receivables and investments. Segment liabilities comprise mainly creditors, accruals, bank and other loans. Following the change in composition of the Group as described in note 1, assets and liabilities of Asia Standard are reclassified under associated companies. Additional segment information of jointly controlled entities and associated companies was set out in supplementary notes.

2005 (in HK\$'000)	Property sales	Property leasing	Hotel and travel	Investments	Other operations	Group
Segment revenue	<u>36,165</u>	<u>37,725</u>	<u>439,054</u>	<u>18,782</u>	<u>21,454</u>	<u>553,180</u>
Contribution to segment results	(19,126)	33,152	79,424	2,767	12,871	109,088
Other income and charges	11,400	—	(1,848)	(62,334)	(1,678)	(54,460)
Unallocated corporate expenses						<u>(33,756)</u>
Operating profit						20,872
Finance costs						(73,283)
Share of results of						
Jointly controlled entities ( <i>note (i)</i> )						162,359
Associated companies ( <i>note (i)</i> )						<u>(80,061)</u>
Profit before taxation						29,887
Taxation charge						<u>(45,358)</u>
Loss after taxation						(15,471)
Minority interests						<u>(145,499)</u>
Loss attributable to shareholders						<u><u>(160,970)</u></u>

2004 (in HK\$'000)	Property sales	Property leasing	Hotel and travel	Investments	Other operations	Group
Segment revenue	<u>167,813</u>	<u>53,155</u>	<u>425,966</u>	<u>91,735</u>	<u>28,721</u>	<u>767,390</u>
Contribution to segment results	(3,132)	47,557	42,067	2,689	24,136	113,317
Other income and charges	(20,074)	34,990	(11,542)	(25,436)	(62,589)	(84,651)
Unallocated corporate expenses						<u>(56,149)</u>
Operating loss						(27,483)
Finance costs						(117,843)
Share of results of						
Jointly controlled entities ( <i>note (i)</i> )						(45,296)
Associated companies ( <i>note (i)</i> )						<u>(111,486)</u>
Loss before taxation						(302,108)
Taxation credit						<u>908</u>
Loss after taxation						(301,200)
Minority interests						<u>72,955</u>
Loss attributable to shareholders						<u><u>(228,245)</u></u>

Notes:

(i) Share of results of jointly controlled entities and associated companies

	2005		2004	
	Jointly controlled entities <i>HK\$'000</i>	Associated companies <i>HK\$'000</i>	Jointly controlled entities <i>HK\$'000</i>	Associated companies <i>HK\$'000</i>
Property sales	204,761	(1,461)	(3,189)	(15,972)
Property leasing	—	34,288	—	12,977
Hotel and travel	—	7,636	—	(713)
Investments	(42,402)	(104,719)	(42,107)	(107,606)
Other operations	—	(1,944)	—	(172)
Finance costs	—	(10,855)	—	—
Unallocated corporate expenses	<u>—</u>	<u>(3,006)</u>	<u>—</u>	<u>—</u>
	<u><u>162,359</u></u>	<u><u>(80,061)</u></u>	<u><u>(45,296)</u></u>	<u><u>(111,486)</u></u>

(ii) Certain comparative amounts have been reclassified to conform with current year's segment classification.

<b>2005 (in HK\$'000)</b>	<b>Property sales</b>	<b>Property leasing</b>	<b>Hotel and travel</b>	<b>Investments</b>	<b>Other operations</b>	<b>Group</b>
Segment assets	101,000	—	—	97,381	31,482	229,863
Jointly controlled entities and associated companies ( <i>note (i)</i> )						1,743,529
Unallocated assets						<u>134,358</u>
						<u>2,107,750</u>
Segment liabilities	—	—	—	—	35,817	35,817
Minority interests and loans						8,311
Unallocated liabilities						<u>61,815</u>
						<u>105,943</u>
Capital expenditure	22	—	140	—	1,792	1,954
Depreciation	<u>15</u>	<u>—</u>	<u>680</u>	<u>—</u>	<u>369</u>	<u>1,064</u>
<b>2004 (in HK\$'000)</b>						
Segment assets	1,271,340	1,975,133	3,301,942	92,027	175,959	6,816,401
Jointly controlled entities and associated companies ( <i>note (i)</i> )	372,959	188,052	—	147,759	10,906	719,676
Unallocated assets						<u>180,352</u>
						<u>7,716,429</u>
Segment liabilities	654,102	883,794	1,356,818	—	69,522	2,964,236
Minority interests and loans						2,351,923
Unallocated liabilities						<u>309,847</u>
						<u>5,626,006</u>
Capital expenditure	25	—	154	—	79	258
Depreciation	<u>40</u>	<u>246</u>	<u>3,243</u>	<u>—</u>	<u>518</u>	<u>4,047</u>

Note:

(i) Share of net assets of jointly controlled entities and associated companies

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property sales	342,042	372,959
Property leasing	603,143	188,052
Hotel and travel	603,380	—
Investments	56,213	147,759
Other operations	6,841	10,906
Unallocated net assets	<u>131,910</u>	<u>—</u>
	<u>1,743,529</u>	<u>719,676</u>

#### Secondary reporting format — geographical segments

The activities of the Group are mainly based in Hong Kong. A summary of geographical segments is set out as follows:

<b>2005 (in HK\$'000)</b>	<b>Segment revenue</b>	<b>Operating profit/(loss)</b>	<b>Total assets</b>	<b>Capital expenditure</b>
Hong Kong	490,442	1,731	1,883,563	1,950
Mainland China	6,252	732	124,506	4
Canada	<u>56,486</u>	<u>18,409</u>	<u>99,681</u>	<u>—</u>
	<u>553,180</u>	<u>20,872</u>	<u>2,107,750</u>	<u>1,954</u>
<b>2004 (in HK\$'000)</b>				
Hong Kong	685,621	(40,557)	6,964,852	237
Mainland China	22,594	(560)	320,920	21
Canada	<u>59,175</u>	<u>13,634</u>	<u>430,657</u>	<u>—</u>
	<u>767,390</u>	<u>(27,483)</u>	<u>7,716,429</u>	<u>258</u>

## 4 OTHER INCOME AND CHARGES

	2005 HK\$'000	2004 HK\$'000
Write-back of provision/(provision) for diminution in value of properties under development/held for sale	11,400	(20,074)
Revaluation surplus on investment properties	—	34,990
Unrealised gains/(losses) on other investments	92,271	(25,436)
Write-back of provision/(provision) for doubtful debts	12,325	(51,400)
Loss on disposal of subsidiaries	(3,946)	—
Loss on disposal of an associated company	—	(9,129)
Loss on partial disposal of interest in a listed subsidiary (note 1(a))	(25,272)	(8,220)
Loss on disposal of a listed subsidiary (note 1(b))	(10,193)	—
Loss on deemed disposal of interest in a listed associated company (note 1(c))	(115,194)	—
Negative goodwill recognised	—	1,031
Impairment loss of goodwill	(10,002)	—
Amortisation of goodwill	(5,849)	(6,413)
	<u>(54,460)</u>	<u>(84,651)</u>

## 5 OPERATING PROFIT/(LOSS)

	2005 HK\$'000	2004 HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
<b>Crediting</b>		
Net rental income (note (a))	33,391	46,039
Interest income		
Debt securities	226	226
Others	9,682	12,878
Dividends from listed investments	142	1,207
Gain/(loss) on disposal of fixed assets	1,008	(68)
Unrealised gain/(losses) on other investments	92,271	(25,436)
Net realised gains on other investments	<u>2,625</u>	<u>1,482</u>
<b>Charging</b>		
Operating lease rental expenses for land and buildings	3,952	6,235
Impairment loss of goodwill	10,002	—
Provision for long term investment	1,601	—
Amortisation of goodwill	5,849	6,413
Staff costs, including Director's emoluments (note 8)	72,438	91,493
Depreciation	1,064	4,047
Auditors' remuneration	<u>2,933</u>	<u>3,343</u>

Note:

(a) **Net rental income**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross rental income		
Investment properties	24,130	34,295
Properties held for sale	<u>13,595</u>	<u>18,860</u>
	37,725	53,155
Outgoings	<u>(4,334)</u>	<u>(7,116)</u>
	<u><u>33,391</u></u>	<u><u>46,039</u></u>

**6 FINANCE COSTS**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense		
Long term bank loans	46,390	66,623
Convertible bonds	23,291	30,999
Convertible notes	1,723	5,027
Loans from minority shareholders of subsidiaries	2,328	3,443
Short term bank loans and overdrafts	6,535	19,001
Other incidental borrowing costs	<u>6,603</u>	<u>7,551</u>
	86,870	132,644
Capitalised as cost of properties under development		
Interest expense	(11,175)	(13,671)
Other incidental borrowing costs	<u>(2,412)</u>	<u>(1,130)</u>
	<u><u>73,283</u></u>	<u><u>117,843</u></u>

To the extent funds are borrowed generally and used for the purpose of financing certain properties under development, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these properties under development is 5.3% (2004: 5.5%) per annum.

## 7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The aggregate amount of emoluments paid and payable to Directors of the Company during the year are as follows:

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees (i)	453	220
Salaries, housing allowances and benefits in kind (ii)	<u>19,917</u>	<u>23,660</u>
	<u><u>20,370</u></u>	<u><u>23,880</u></u>

(i) Fees paid by the Company to Non-executive Directors.

(ii) Other emoluments paid to executive Directors include HK\$9,667,000 (2004: HK\$12,960,000) paid by Asia Standard International Group Limited ("Asia Standard") and HK\$6,783,000 (2004: HK\$5,700,000) paid by Asia Standard Hotel Group Limited ("Asia Standard Hotel") prior to their changing from subsidiaries to associated companies.

The emoluments of individual Directors fell within the following bands:

<b>Emoluments band</b>	<b>Number</b>	
	<b>2005</b>	<b>2004</b>
HK\$nil — HK\$500,000	4	2
HK\$1,000,001 — HK\$1,500,000	1	—
HK\$1,500,001 — HK\$2,000,000	1	—
HK\$2,000,001 — HK\$2,500,000	1	2
HK\$2,500,001 — HK\$3,000,000	1	—
HK\$3,000,001 — HK\$3,500,000	—	2
HK\$11,500,001 — HK\$12,000,000	1	—
HK\$12,000,001 — HK\$12,500,000	—	1

None of the Directors have waived the right to receive their emoluments.

(b) The five highest paid individuals in the Group for the year include five (2004: five) Directors whose emoluments are already reflected in the analysis presented above.



## 8 STAFF COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Wages and salaries	72,372	89,969
Retirement benefits costs ( <i>note (a)</i> )	<u>2,329</u>	<u>2,915</u>
	74,701	92,884
Capitalised under properties under development	<u>(2,263)</u>	<u>(1,391)</u>
	<u>72,438</u>	<u>91,493</u>

Staff costs are stated inclusive of Directors' emoluments.

*Notes:*

## (a) Retirement benefits costs

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Gross contributions	2,429	3,069
Forfeitures utilised	<u>(100)</u>	<u>(154)</u>
Net contributions	<u>2,329</u>	<u>2,915</u>

The Group participates in three types of defined contribution schemes for employees, namely the Mandatory Provident Fund ("MPF") Scheme and Occupational Retirement Scheme Ordinance ("ORSO") Scheme in Hong Kong and Canada Pension Plan ("CPP") in Canada.

In Hong Kong, the Group participates in several defined contribution schemes under the ORSO which are available to employees joining before 1st December 2000. Under these schemes, contribution of 5% of the employee's monthly salaries are made by the employees and by the Group. The Group's contributions may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also participates in the MPF scheme, which is available to all employees not joining the ORSO schemes in Hong Kong and in the CPP organised by the Canadian Government for all employees in Canada. Monthly contributions to the MPF scheme and CPP are made equal to 5% and 4.95% (2004: 5% and 4.95%) respectively, of the employee's relevant income in accordance with the local legislative requirements.

The Group's contributions to all these schemes are expensed as incurred. The assets of all these retirement schemes are held separately from those of the Group in independently administered funds.

As at 31st March 2005, no forfeitures (2004: nil) were available to reduce the Group's future contributions to the ORSO schemes.

## (b) Share options

The Company and Asia Standard (prior to its reclassification as an associated company) operate share option schemes whereby options may be granted to employees of the Group, including the executive Directors, to subscribe for shares of the Company and Asia Standard respectively. The consideration to be paid on each grant of option varies between HK\$1 and HK\$10. The share option scheme of Asia Standard had expired on 22nd January 2002.

Details of share options held under the schemes are as follows:

Grantee	Expiry date	Exercise price	2005 Number	2004 Number
<b>Company</b>				
Directors	11th February 2014	HK\$3.3	6,872,000	6,872,000
Staff	24th February 2015	HK\$2.895	5,400,000	—
<b>Asia Standard</b>				
Director	27th March 2005	HK\$0.384	—	1,750,000

During the year, 5,400,000 (2004: 6,872,000) share options to subscribe for shares of the Company were granted and 1,750,000 (2004: nil) share options to subscribe for shares of Asia Standard were exercised. No share options were cancelled or lapsed (2004: 4,950,000 and 300,000 share options to subscribe for shares of the Company were cancelled and lapsed respectively) during the year.

## 9 TAXATION (CHARGE)/CREDIT

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong profits tax	—	(140)
Over provisions in prior years	140	915
Deferred taxation		
Relating to the origination and reversal of temporary differences	(3,735)	(117)
Resulting from an increase in tax rate	—	2,168
	(3,595)	2,826
Share of taxation attributable to		
Jointly controlled entities	(36,464)	(287)
Associated companies	(5,299)	(1,631)
	<u>(45,358)</u>	<u>908</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's (profit)/loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
(Profit)/loss before taxation	<u>(29,887)</u>	<u>302,108</u>
Calculated at a taxation rate of 17.5% (2004: 17.5%)	(5,230)	52,869
Overprovisions in prior years	140	918
Effect of different taxation rates in other countries	272	844
Income not subject to taxation	35,974	15,188
Expenses not deductible for taxation purposes	(65,957)	(55,661)
Tax losses not recognised	(8,892)	(18,643)
Utilisation of previously unrecognised temporary difference	1,736	5,226
Recognition of previously unrecognised tax losses	1,212	1,775
Recognition of previously unrecognised temporary difference	(1,186)	—
Derecognition of deferred tax assets	(3,010)	(3,777)
Increase in opening net deferred tax assets resulting from an increase in tax rate	—	1,998
Others	<u>(417)</u>	<u>171</u>
Taxation (charge)/credit	<u><u>(45,358)</u></u>	<u><u>908</u></u>

#### 10 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$229,894,000 (2004: HK\$112,806,000).

#### 11 DIVIDEND AND DISTRIBUTION

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Interim, paid, of HK2 cents (2004: nil) per share	3,997	—
Scrip distribution, proposed, of HK4.3 cents (2004: nil) per share	<u>10,084</u>	<u>—</u>
	<u><u>14,081</u></u>	<u><u>—</u></u>

*Note:*

At a meeting held on 19th July 2005, the Board has declared a distribution of HK4.3 cents per share in scrip. This proposed distribution is not reflected as a payable in these accounts, but will be reflected as an appropriation of contributed surplus in the year ending 31st March 2006.

## 12 LOSS PER SHARE

The calculation of loss per share is based on loss attributable to shareholders of HK\$160,970,000 (2004: HK\$228,245,000) and on the weighted average of 186,544,765 (2004: 153,152,913) shares in issue during the year.

The calculation of diluted loss per share is based on HK\$165,519,000 equalling to the loss attributable to shareholders of HK\$160,970,000 plus decreased share of profit after tax of listed associated companies of HK\$4,549,000 assuming the convertible bonds and notes of the listed associated companies had been converted and the weighted average number of 186,544,765 shares in issue during the year.

No diluted loss per share is presented for the year ended 31st March 2004 as the exercise of subscription rights attached to the share options and the conversion of the convertible bonds would not have a dilutive effect on the loss per share.

## 13 FIXED ASSETS

	Investment properties <i>HK\$'000</i>	Hotel properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Properties under development <i>HK\$'000</i>	Other fixed assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>						
<b>Cost or valuation</b>						
At 31st March 2004	1,423,000	3,167,550	10,507	42,326	50,352	4,693,735
Translation differences	—	34,300	—	—	25	34,325
Additions	—	—	—	—	1,954	1,954
Disposals	—	—	(2,534)	—	(28)	(2,562)
Disposal of a listed subsidiary	(1,423,000)	(3,201,850)	(7,973)	(42,373)	(49,087)	(4,724,283)
Cost adjustment	—	—	—	47	—	47
<b>At 31st March 2005</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,216</u>	<u>3,216</u>
<b>Accumulated depreciation and impairment</b>						
At 31st March 2004	—	—	2,210	—	48,489	50,699
Translation differences	—	—	—	—	22	22
Charge for the year	—	—	162	—	902	1,064
Disposals	—	—	(642)	—	(28)	(670)
Disposal of a listed subsidiary	—	—	(1,730)	—	(47,531)	(49,261)
<b>At 31st March 2005</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,854</u>	<u>1,854</u>
<b>Net book value</b>						
<b>At 31st March 2005</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,362</u>	<u>1,362</u>
At 31st March 2004	<u>1,423,000</u>	<u>3,167,550</u>	<u>8,297</u>	<u>42,326</u>	<u>1,863</u>	<u>4,643,036</u>

- (a) In 2004, investment properties comprised long term leasehold land and buildings of HK\$1,423,000,000 in Hong Kong. They were revalued by Vigers Hong Kong Limited, independent professional valuers, on an open market value basis.
- (b) In 2004, hotel properties comprised long term leasehold land and buildings situated in Hong Kong of HK\$1,400,000,000, medium term leasehold land and buildings in Hong Kong of HK\$1,350,000,000 and freehold land and buildings situated in Canada of HK\$417,550,000. The hotel properties in Hong Kong and Canada were revalued by Knight Frank and Grant Thornton Management Consultants, independent professional valuers, on an open market value basis respectively.
- (c) In 2004, included in other properties are long term leasehold land and buildings of HK\$2,440,000 and medium term leasehold land and buildings of HK\$5,857,000, both of which were stated at cost less accumulated depreciation and impairment. All these properties were located in Hong Kong.
- (d) In 2004, properties under development comprise long term leasehold land and buildings of HK\$42,326,000 in Hong Kong and were stated at cost.
- (e) No fixed assets were pledged as securities for loans (2004: HK\$4,638,733,000).

#### 14 SUBSIDIARIES

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2,823,639	2,823,639
Amounts due by subsidiaries less provisions	<u>605,869</u>	<u>794,146</u>
	<u><u>3,429,508</u></u>	<u><u>3,617,785</u></u>

Details of the principal subsidiaries are set out in note 36.

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

#### 15 JOINTLY CONTROLLED ENTITIES

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	(37,841)	(130,359)
Goodwill less amortisation and impairment	—	40,699
Advances to jointly controlled entities less provisions	50,095	357,464
Amount due to a jointly controlled entity	<u>(4,422)</u>	<u>(4,422)</u>
	<u><u>7,832</u></u>	<u><u>263,382</u></u>

In 2004, the shares in certain jointly controlled entities were pledged to secure loan facilities granted to those entities and advances to jointly controlled entities amounted to HK\$261,027,000 were subordinated to the repayment of the loans of those jointly controlled entities.

Advances are made to finance working capital of those jointly controlled entities. The amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment.

Detail of the principal jointly controlled entities are set out in note 36.

## 16 ASSOCIATED COMPANIES

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets/(liabilities)	1,735,529	(92,071)
Goodwill less amortisation and impairment	—	88,237
Advances to associated companies less provisions	183	511,293
Amounts due to associated companies	<u>(15)</u>	<u>(51,165)</u>
	<u>1,735,697</u>	<u>456,294</u>
Market value of listed shares	<u>691,512</u>	<u>42,021</u>

In 2004, the shares in certain associated companies were pledged to secure the loan facilities granted to those companies and advance to associated companies amounted to HK\$345,700,000 were subordinated to the repayment of the loans of those companies.

The Group equity accounted for the results and net assets of Asia Standard following the disposal of its interest in Asia Standard in January 2005 (note 1(b)).

The amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment. In 2004, advances to associated companies were made mainly to finance property development projects and an amount of HK\$8,565,000 due from an associated company was interest bearing at prime rate.

Details of the principal associated companies are set out in note 36.

## 17 LONG TERM INVESTMENTS

	<b>Group</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Unlisted share, at cost	—	1
Advance to an investee company	—	1,600
	—	1,601
Share listed in Hong Kong, at cost	68,633	—
	<u>68,633</u>	<u>1,601</u>
Market value of listed shares	<u>62,717</u>	<u>—</u>

Advance to an investee company is unsecured, interest free and has no fixed terms of repayment.

## 18 GOODWILL

	<b>Group</b> <i>HK\$'000</i>
<b>Cost</b>	
At 31st March 2004	44,647
Disposal of a listed subsidiary	<u>(24,643)</u>
At 31st March 2005	<u>20,004</u>
<b>Accumulated amortisation and impairment</b>	
At 31st March 2004	13,760
Amortisation charge	5,849
Impairment charge	10,002
Disposal of a listed subsidiary	<u>(9,607)</u>
At 31st March 2005	<u>20,004</u>
<b>Net book value</b>	
At 31st March 2005	<u>—</u>
At 31st March 2004	<u>30,887</u>

**19 MORTGAGE LOANS RECEIVABLE**

At 31st March 2004, mortgage loans receivable of HK\$14,518,000 in aggregate were pledged as security for the Group's long term loans.

**20 PROPERTIES HELD FOR/UNDER DEVELOPMENT FOR SALE AND COMPLETED PROPERTIES HELD FOR SALE**

At 31st March 2004, properties amounted to HK\$1,416,374,000 were pledged to banks to secure certain banking facilities of the Group.

At 31st March 2004, properties that were carried at net realisable values were HK\$721,712,000 and properties held for deployment in operating leases were HK\$538,212,000.

**21 DEBTORS AND PREPAYMENTS**

Debtors and prepayments include trade debtors, utility and other deposits, stakeholders' accounts, interest and other receivables. At 31st March 2004, there was a housing loan of HK\$1,088,000 granted to a Director, Mr. Kwan Po Lam, Phileas, in March 1995 and the loan was fully repaid in August 2004. The loan was secured by a legal mortgage over the subject property, carried interest at 2% below prime rate per annum and the principal was repayable by quarterly instalments of HK\$17,000 each. The maximum outstanding balance during the year was HK\$1,088,000 (2004: HK\$1,156,000).

Trade debtors amounted to HK\$349,000 (2004: HK\$37,905,000), 90% of which (2004: 100%) were aged under six months. The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

**22 OTHER INVESTMENTS**

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities		
Listed in Hong Kong	24,154	78,418
Listed overseas	—	7,327
Unlisted	—	1,688
	<u>24,154</u>	<u>87,433</u>
Debt securities	<u>4,500</u>	<u>4,500</u>
	<u><u>28,654</u></u>	<u><u>91,933</u></u>

**23 BANK BALANCES AND CASH**

In 2004, the balances include restricted bank balances of HK\$32,625,000 which were pledged to banks to secure certain banking facilities of the Group or required to be utilised for specific purposes. In addition, bank balances of HK\$33,161,000 (2004: HK\$32,493,000) are held in trust in respect of buildings managed by the Group on behalf of third parties.



## 24 CREDITORS AND ACCRUALS

Creditors and accruals include trade creditors, rental and management fee deposits, interest and other payables, retentions payable of construction costs and various accruals. Trade creditors amounted to HK\$3,779,000 (2004: HK\$26,012,000), 85% (2004: 100%) of which were aged under six months.

## 25 SHARE CAPITAL

Shares of HK\$0.1 each	Number of shares	Amount HK\$'000
Authorised:		
At 31st March 2004 and 2005	<u>750,000,000</u>	<u>75,000</u>

	Number of shares		Amount	
	2005	2004	2005 HK\$'000	2004 HK\$'000
Issued and fully paid:				
At beginning of the year	173,493,094	149,826,429	17,349	14,983
Conversion of convertible notes ( <i>note (a)</i> )	26,333,332	23,666,665	2,634	2,366
Scrip dividend ( <i>note (b)</i> )	89,784	—	9	—
Placement of new shares ( <i>note (c)</i> )	<u>34,600,000</u>	<u>—</u>	<u>3,460</u>	<u>—</u>
At end of the year	<u>234,516,210</u>	<u>173,493,094</u>	<u>23,452</u>	<u>17,349</u>

## Notes:

- (a) During the year, holders of HK\$31,600,000 (2004: HK\$28,400,000) convertible notes of the Company exercised the conversion rights attaching to the notes by converting those notes into 26,333,332 new shares of the Company at HK\$1.20 per share.
- (b) In March 2005, 89,784 new shares were allotted and issued in lieu of interim dividend.
- (c) Pursuant to a placing and subscription agreement dated 2nd March 2005, the Company issued 34.6 million shares at HK\$2.50 per share, a discount of approximately 9.9% to the closing price of HK\$2.775 per share as quoted on the Stock Exchange on 1st March 2005, to more than six independent third parties. The net proceeds from the subscription was approximately HK\$84.1 million representing HK\$2.43 per share, of which about HK\$70 million was used for the repayment of bank loan and the remaining balance is for general working capital purpose. The reasons for this share placement were to broaden the shareholder and capital base as well as to strengthen the financial position of the Company.

## 26 RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Revaluation reserve		Contributed surplus HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
			Investment properties HK\$'000	Hotel properties HK\$'000			
Group							
At 31st March 2003	1,391,348	485,917	—	75,973	1,002,675	(729,133)	2,226,780
Translation differences	—	—	—	499	—	9,606	10,105
Conversion of convertible notes	26,033	—	—	—	—	—	26,033
Disposal of interest in a listed subsidiary	—	(6,179)	—	(896)	—	896	(6,179)
Surplus on revaluation							
Company and subsidiaries							
Gross	—	—	34,990	44,784	—	—	79,774
Taxation	—	—	—	(204)	—	—	(204)
Associated companies	—	—	7,669	—	—	—	7,669
Surplus on revaluation transfer to profit and loss account							
Company and subsidiaries	—	—	(34,990)	—	—	—	(34,990)
Associated companies	—	—	(7,669)	—	—	—	(7,669)
Loss for the year	—	—	—	—	—	(228,245)	(228,245)
At 31st March 2004	<u>1,417,381</u>	<u>479,738</u>	<u>—</u>	<u>120,156</u>	<u>1,002,675</u>	<u>(946,876)</u>	<u>2,073,074</u>
Company and subsidiaries	1,417,381	479,738	—	120,156	1,002,675	(313,138)	2,706,812
Jointly controlled entities	—	—	—	—	—	(224,044)	(224,044)
Associated companies	—	—	—	—	—	(409,694)	(409,694)
At 31st March 2004	<u>1,417,381</u>	<u>479,738</u>	<u>—</u>	<u>120,156</u>	<u>1,002,675</u>	<u>(946,876)</u>	<u>2,073,074</u>
At 31st March 2004	1,417,381	479,738	—	120,156	1,002,675	(946,876)	2,073,074
Translation differences	—	—	—	161	—	7,617	7,778
Conversion of convertible notes	28,966	—	—	—	—	—	28,966
Placement of new shares	80,686	—	—	—	—	—	80,686
Scrip dividend	245	—	—	—	—	—	245
Partial disposal of interest in a listed subsidiary	—	(19,075)	—	(4,499)	—	4,499	(19,075)
Disposal of a listed subsidiary	—	(8,253)	—	(1,945)	—	1,945	(8,253)
Deemed disposal of interest in a listed associated company	—	(92,108)	—	(21,713)	—	21,713	(92,108)
Surplus on revaluation							
Associated companies							
Gross	—	—	64,215	32,210	—	—	96,425
Taxation	—	—	—	(195)	—	—	(195)
Surplus on revaluation transfer to profit and loss account							
Associated companies	—	—	(24,221)	—	—	—	(24,221)
Dividend paid	—	—	—	—	—	(3,997)	(3,997)
Loss for the year	—	—	—	—	—	(160,970)	(160,970)
At 31st March 2005	<u>1,527,278</u>	<u>360,302</u>	<u>39,994</u>	<u>124,175</u>	<u>1,002,675</u>	<u>(1,076,069)</u>	<u>1,978,355</u>
Company and subsidiaries							
2005 proposed scrip distribution (note 11)	—	—	—	—	10,084	—	10,084
Others	1,527,278	360,302	—	—	992,591	(520,128)	2,360,043
Jointly controlled entities	—	—	—	—	—	(403,833)	(403,833)
Associated companies	—	—	39,994	124,175	—	(152,108)	12,061
At 31st March 2005	<u>1,527,278</u>	<u>360,302</u>	<u>39,994</u>	<u>124,175</u>	<u>1,002,675</u>	<u>(1,076,069)</u>	<u>1,978,355</u>

At 31st March 2005, the capital reserve included goodwill of HK\$37,721,000 (2004: HK\$37,721,000) which arose from acquisitions prior to 31st March 2001.

<b>Company</b>	<b>Share premium HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Revenue reserve HK\$'000</b>	<b>Total HK\$'000</b>
At 31st March 2003	1,391,348	2,838,224	(574,066)	3,655,506
Conversion of convertible notes	26,033	—	—	26,033
Loss for the year	<u>—</u>	<u>—</u>	<u>(112,806)</u>	<u>(112,806)</u>
At 31st March 2004	<u>1,417,381</u>	<u>2,838,224</u>	<u>(686,872)</u>	<u>3,568,733</u>
At 31st March 2004	1,417,381	2,838,224	(686,872)	3,568,733
Conversion of convertible notes	28,966	—	—	28,966
Placement of new shares	80,686	—	—	80,686
Scrip dividend	245	—	—	245
Dividend paid	—	—	(3,997)	(3,997)
Loss for the year	<u>—</u>	<u>—</u>	<u>(229,894)</u>	<u>(229,894)</u>
At 31st March 2005	<u>1,527,278</u>	<u>2,838,224</u>	<u>(920,763)</u>	<u>3,444,739</u>
Representing:				
2005 proposed scrip distribution ( <i>note 11</i> )	—	10,084	—	10,084
Others	<u>1,527,278</u>	<u>2,828,140</u>	<u>(920,763)</u>	<u>3,434,655</u>
At 31st March 2005	<u>1,527,278</u>	<u>2,838,224</u>	<u>(920,763)</u>	<u>3,444,739</u>

The revenue reserve is distributable. Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is also distributable. Accordingly, total distributable reserves of the Company amount to HK\$1,917,461,000 (2004: HK\$2,151,352,000) as at 31st March 2005.

## 27 CONVERTIBLE BONDS

On 7th January 2002, Asia Standard International Capital Limited (“ASICL”), a wholly owned subsidiary of Asia Standard, issued HK\$290,000,000 convertible bonds to Westrata Investment Limited (“Westrata”), a substantial shareholder of Asia Standard. The bonds bore interest at 7% per annum payable semi-annually in arrears and were guaranteed by Asia Standard. In March 2003, the bond had been transferred from Westrata to Grosvenor Limited (“Grosvenor”), an indirect subsidiary of Grosvenor Group Limited.

Grosvenor had the option to convert the bonds into fully paid shares of HK\$0.01 each of Asia Standard at a conversion price of HK\$0.45 per share, subject to adjustment, at any time between 7th January 2002 and 7th January 2007. Following the completion of the placing new share of Asia Standard, the conversion price of the bonds was adjusted from HK\$0.45 per share to HK\$0.44 per share. ASICL may purchase all or part of the bonds at any time on or after 7th January 2002, subject to certain conditions, together with accrued interest. Unless previously converted or redeemed, the bonds would be redeemed on 7th January 2007 at a redemption price equal to 118.3% of the principal amount together with accrued interest.

At 31st March 2004, provision of HK\$23,700,000 for the premium payable had been made in the accounts so as to provide a constant periodic rate of charge to the profit and loss account over the term of the bonds.

## 28 CONVERTIBLE NOTES

- (a) On 16th January 2003, the Company issued HK\$60,000,000 convertible notes which bear interest at 5% per annum payable annually in arrears. Each holder of the notes has the option to convert the notes into fully paid shares of HK\$0.10 each of the Company at (a) HK\$1.10 per share from the date of issue of the convertible notes and (b) HK\$1.20 per share after the first anniversary of the date of issue of the convertible notes to the business date last preceding the second anniversary of the date of issue of the convertible notes. The Company shall repay the outstanding principal amount of the convertible notes together with accrued interest on the business date last preceding the second anniversary of the date of issue of the convertible notes. Save for repayment upon maturity, the convertible notes cannot be redeemed. During the year, HK\$31,600,000 (2004: HK\$28,400,000) of these convertible notes were converted into fully paid share of the Company at HK\$1.20 (2004: HK\$1.20) per share and no convertible notes remained outstanding at 31st March 2005 (2004: HK\$31,600,000).
- (b) On 15th April 2003, Asia Standard Hotel issued convertible notes of the principal amount of HK\$46,000,000, which bore interest at Hong Kong prime rate per annum payable semi-annually in arrears. Each holder of the notes had the option to convert the notes into fully paid shares of HK\$0.02 each of Asia Standard Hotel at a conversion price of HK\$0.25 per share, subject to adjustment, at any time from the date of issue to the last business date preceding the maturity date of 18 months from the date of issue. On 14th October 2004, Asia Standard Hotel had fully redeemed all the convertible notes.

## 29 LONG TERM LOANS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured		
Repayable within one year	37,372	118,446
Repayable between one and two years	6,226	145,220
Repayable between two and five years	—	751,362
Repayable after five years	—	1,332,634
	<u>43,598</u>	<u>2,347,662</u>
Current portion included in current liabilities	<u>(37,372)</u>	<u>(118,446)</u>
	<u>6,226</u>	<u>2,229,216</u>

In 2004, the Group refinanced bank loans outstanding of approximately HK\$1,469 million. The terms of repayment at 31st March 2004 in respect of these bank loans had been reclassified according to the new loan agreements. As a result, the amount of liabilities which had been excluded from current liabilities amounted to approximately HK\$65 million.

## 30 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

**Group***Deferred tax liabilities*

	Accelerated tax depreciation		Revaluation of properties		Deferred assets		Fair value adjustments on acquisitions		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year	(105,618)	(87,404)	(2,993)	(2,218)	(649)	(878)	(94,702)	(99,957)	(203,962)	(190,457)
(Charged)/credited to profit and loss account	(4,672)	(15,671)	—	—	138	229	(391)	5,255	(4,925)	(10,187)
Charged to equity	—	—	—	(509)	—	—	—	—	—	(509)
Exchange differences	(573)	(2,543)	(89)	(266)	—	—	—	—	(662)	(2,809)
Disposal of a listed subsidiary	110,852	—	3,082	—	511	—	95,093	—	209,538	—
At end of the year	(11)	(105,618)	—	(2,993)	—	(649)	—	(94,702)	(11)	(203,962)

*Deferred tax assets*

	Decelerated tax depreciation		Provisions		Tax losses		Difference in cost base of properties		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year	428	290	620	310	168,685	145,750	43,345	53,762	213,078	200,112
(Charged)/credited to profit and loss account	(377)	138	(2)	310	(16,698)	22,207	18,267	(10,417)	1,190	12,238
Exchange differences	—	—	—	—	—	728	—	—	—	728
Disposal of subsidiaries	—	—	—	—	(7,925)	—	—	—	(7,925)	—
Disposal of a listed subsidiary	—	—	(618)	—	(138,810)	—	(61,612)	—	(201,040)	—
At end of the year	51	428	—	620	5,252	168,685	—	43,345	5,303	213,078

**Company***Deferred tax assets*

	<b>Tax losses</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	196	291
Charged to profit and loss account	<u>(25)</u>	<u>(95)</u>
At end of the year	<u><u>171</u></u>	<u><u>196</u></u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group had unrecognised tax losses of HK\$6 million (2004: HK\$434 million) to carry forward against future taxable income. These tax losses have no expiry date (2004: HK\$364 million). In 2004, tax losses of HK\$70 million would expire at various dates up to and including 2011.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	5,303	62,517	171	196
Deferred tax liabilities	<u>(11)</u>	<u>(53,401)</u>	<u>—</u>	<u>—</u>
	<u><u>5,292</u></u>	<u><u>9,116</u></u>	<u><u>171</u></u>	<u><u>196</u></u>

**31 MINORITY INTERESTS AND LOANS**

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minority interests	—	2,245,000
Loans from minority shareholders of subsidiaries, unsecured	<u>8,311</u>	<u>106,923</u>
	<u><u>8,311</u></u>	<u><u>2,351,923</u></u>

Loans from minority shareholders are to finance property projects of subsidiaries, and interest free and have no specific terms of repayment. In 2004, loans of HK\$86,570,000 bore interest at 1.5% above prime rate.

## 32 CAPITAL COMMITMENTS

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Contracted but not provided for	—	—	—	—
Authorised but not contracted for	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

## 33 OPERATING LEASE ARRANGEMENTS

## (a) Lessor

The Group leases out certain properties under operating leases which typically run for lease terms between 1 and 10 years.

At 31st March 2005, the future aggregate minimum rental receipts receivable under non-cancellable operating leases were as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
In respect of land and buildings:		
Within one year	—	56,795
In the second to fifth year inclusive	—	59,968
After the fifth year	—	7,915
	<u>—</u>	<u>124,678</u>

## (b) Lessee

At 31st March 2005, the future aggregate minimum lease payments payable under non-cancellable operating leases were as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
In respect of land and buildings:		
Within one year	259	3,110
In the second to fifth year inclusive	87	6,898
After the fifth year	—	—
	<u>346</u>	<u>10,008</u>

## 34 CONTINGENT LIABILITIES

## (a) Guarantee

	Group		Company	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees for the banking and loan facilities of:				
Subsidiaries	—	—	58,274	135,150
Jointly controlled entities	—	146,693	—	—
Associated companies	—	97,068	—	—
Third parties	—	1,785	—	—
	<u>—</u>	<u>245,546</u>	<u>58,274</u>	<u>135,150</u>

- (b) In May 2003, the Group received a writ in respect of which the plaintiff, a purchaser of a property developed by the Group in 1997, sought to claim damages and rescission of the sale and purchase transaction on the alleged grounds that the said property consideration had been grossly overvalued. In November 2004, both parties entered into an agreement under which the plaintiff withdrew their claims and agreed to refrain from commencing fresh legal proceedings against the Group on the subject matter.



## 35 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit / (loss) before taxation to net cash generated from operations

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	29,887	(302,108)
Share of profits less losses of		
Jointly controlled entities	(162,359)	45,296
Associated companies	80,061	111,486
Depreciation	1,064	4,047
Amortisation of goodwill	5,849	6,413
(Gain) / loss on disposal of fixed assets	(1,008)	68
Provision for long term investments	1,601	—
Impairment loss of goodwill	10,002	—
Loss on disposal of an associated company	—	9,129
Loss on disposal of a subsidiary	3,946	—
Loss on partial disposal of interest in a listed subsidiary	25,272	8,220
Loss on disposal of a listed subsidiary	10,193	—
Loss on deemed disposal of interest in a listed associated company	115,194	—
Net realised and unrealised (gains) / losses on other investments	(94,896)	23,954
(Write-back of provision) / provision for diminution in value of properties under development/held for sale	(11,400)	20,074
Revaluation surplus on investment properties	—	(34,990)
Dividends from other investments	(142)	(1,207)
Negative goodwill recognised	—	(1,031)
Interest income	(9,908)	(13,104)
Interest expense	<u>69,092</u>	<u>111,422</u>
Operating profit / (loss) before working capital changes	72,448	(12,331)
Decrease / (increase) in mortgage loans receivable	9,113	(12,839)
(Increase) / decrease in properties held for / under development for sale (excluding interest expense capitalised)	(400,346)	111,089
(Increase) / decrease in hotel and restaurant inventories	(480)	295
Decrease / (increase) in debtors and prepayments	63,388	(110,572)
(Decrease) / increase in creditors and accruals	<u>(81,228)</u>	<u>30,222</u>
Net cash (used in) / generated from operations	<u>(337,105)</u>	<u>5,864</u>

## (b) Disposal of subsidiaries

	<b>Asia Standard 2005 HK\$'000</b>	<b>Other subsidiaries 2005 HK\$'000</b>	<b>Total 2005 HK\$'000</b>
Net assets disposed			
Fixed assets	4,675,022	—	4,675,022
Jointly controlled entities	164,750	—	164,750
Associated companies	379,886	—	379,886
Goodwill	15,036	—	15,036
Mortgage loans receivable	31,220	—	31,220
Deferred tax assets	49,036	7,925	56,961
Properties held for / under development for sale	1,232,026	273,017	1,505,043
Completed properties held for sale	555,109	—	555,109
Hotel and restaurant inventories	3,095	—	3,095
Debtors and prepayments	125,324	—	125,324
Other investments	171,801	—	171,801
Tax recoverable	224	—	224
Restricted bank balances	26,275	—	26,275
Bank balances and cash	99,501	28	99,529
Creditors and accruals	(199,147)	(37)	(199,184)
Bank overdraft	(7,362)	—	(7,362)
Short term bank loans	(9,999)	—	(9,999)
Long term bank loans	(2,426,024)	(130,000)	(2,556,024)
Taxation	(9,313)	—	(9,313)
Convertible bonds	(290,000)	—	(290,000)
Deferred tax liabilities	(57,534)	—	(57,534)
Minority interests and loans	<u>(2,573,111)</u>	<u>—</u>	<u>(2,573,111)</u>
	1,955,815	150,933	2,106,748
Less: Capital reserve	(8,253)	—	(8,253)
Loss on disposal	<u>(10,193)</u>	<u>(3,946)</u>	<u>(14,139)</u>
	<u>1,937,369</u>	<u>146,987</u>	<u>2,084,356</u>

	Asia Standard 2005 <i>HK\$'000</i>	Other subsidiaries 2005 <i>HK\$'000</i>	Total 2005 <i>HK\$'000</i>
Satisfied by:			
Cash proceeds received less expenses	13,160	71,514	84,674
Reclassified to			
Associated company	1,855,576	—	1,855,576
Long term investments	68,633	—	68,633
Jointly controlled entity	—	75,473	75,473
	<u>1,937,369</u>	<u>146,987</u>	<u>2,084,356</u>
Cash consideration	13,160	71,514	84,674
Bank balances and cash disposed	(99,501)	(28)	(99,529)
Bank overdrafts disposed	7,362	—	7,362
	<u>(78,979)</u>	<u>71,486</u>	<u>(7,493)</u>

## (c) Analysis of changes in financing

	Share capital (including premium)	Revenue reserve	Long term loans	Short term bank loans	Convertible bonds	Convertible notes	Minority interests and loans	Restricted bank balances	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st March 2003	1,406,331	(729,133)	2,511,261	132,050	290,000	60,000	2,290,611	(33,853)	5,927,267
Conversion of notes	28,399	—	—	—	—	(28,400)	—	—	(1)
Minority interests' share of revaluation reserve	—	—	—	—	—	—	105,291	—	105,291
Minority interests' share of loss and exchange reserve of subsidiaries	—	—	—	—	—	—	(58,638)	—	(58,638)
Partial disposal of interest in a listed subsidiary	—	896	—	—	—	—	—	—	896
Net decrease of interest in a listed subsidiary	—	—	—	—	—	—	19,071	—	19,071
Exchange differences	—	9,606	17,152	—	—	—	—	—	26,758
Loss for the year	—	(228,245)	—	—	—	—	—	—	(228,245)
Net cash from/(used in)financing activities	—	—	(180,751)	(9,452)	—	46,000	(4,412)	1,228	(147,387)
At 31st March 2004	1,434,730	(946,876)	2,347,662	122,598	290,000	77,600	2,351,923	(32,625)	5,645,012
Conversion of notes	31,600	—	—	—	—	(31,600)	—	—	—
Scrip dividend	254	(254)	—	—	—	—	—	—	—
Minority interests' share of profit and exchange reserve of subsidiaries	—	—	—	—	—	—	159,216	—	159,216
Disposal of a listed subsidiary	—	1,945	(2,426,024)	(9,999)	(290,000)	—	(2,573,111)	26,275	(5,270,914)
Disposal of subsidiaries	—	—	(130,000)	—	—	—	—	—	(130,000)
Deemed disposal of interest in a listed associated company	—	21,713	—	—	—	—	—	—	21,713
Partial disposal of interest in a listed subsidiary	—	4,499	—	—	—	—	71,451	—	75,950
Exchange differences	—	7,617	12,211	—	—	—	—	—	19,828
Loss for the year	—	(160,970)	—	—	—	—	—	—	(160,970)
Net cash from/(used in)financing activities	84,146	(3,743)	239,749	(102,599)	—	(46,000)	(1,168)	6,350	176,735
At 31st March 2005	<u>1,550,730</u>	<u>(1,076,069)</u>	<u>43,598</u>	<u>10,000</u>	<u>—</u>	<u>—</u>	<u>8,311</u>	<u>—</u>	<u>536,570</u>

## 36 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

Listed below are the principal subsidiaries, jointly controlled entities and associated companies which, in the opinion of the Directors, principally affect the results and/or net assets of the Group.

**Subsidiaries**

(Unless indicated otherwise, they are indirectly held by the Group and have their principal place of operations in Hong Kong.)

<b>Name</b>	<b>Principal activity</b>	<b>Issued and fully paid ordinary share capital except otherwise stated</b>	<b>Group equity interest %</b>
<i>Incorporated in the British Virgin Islands</i>			
Asia Orient Holdings (BVI) Limited*	Investment holding	US\$100	100
Finnex Limited	Securities investment	US\$1	100
Impetus Holdings Limited	Investment holding	US\$1	100
Innovision Gateway Limited	Investment holding	US\$1	100
Jetcom Capital Limited	Investment holding	US\$1	100
Mega Fusion Limited	Investment holding	US\$1	100
New Day Holdings Ltd.	Investment holding	US\$1	100
Persian Limited	Investment holding	US\$49,050	100
Sunrich Holdings Limited	Securities investment	US\$1	100
Superise Limited	Research and development of healthcare food and beverage	US\$1	100
Telemail Group Inc.	Investment holding	US\$1	100
United Resources Associates Limited	Investment holding	US\$6	83.3
<i>Incorporated in Hong Kong</i>			
Asia Orient Company Limited	Investment holding	US\$26,964,837	100
Good Year Engineering Services Limited	Engineering and maintenance services	HK\$2	100
Htako Limited	Investment holding	HK\$20	100
Ocean Hand Investments Limited	Investment holding	HK\$2	100
Pan Bright Investment Limited	Investment holding	HK\$20	100
Pan Harbour Investment Limited	Investment holding	HK\$2	100
Pan Inn Investment Limited	Investment holding	HK\$20	100
Pan Kite Investment Limited	Investment holding	HK\$20	100
Pan Pearl Investment Limited	Investment holding	HK\$20	100
Pan Spring Investment Limited	Investment holding	HK\$20	100
Prosperity Land Cleaning Service Limited	Cleaning services	HK\$100 and non-voting deferred share capital of HK\$100	100

<b>Name</b>	<b>Principal activity</b>	<b>Issued and fully paid ordinary share capital except otherwise stated</b>	<b>Group equity interest %</b>
Prosperity Land Estate Management Limited	Property management	HK\$150 and non-voting deferred share capital of HK\$1,500,000	100
Union Home Development Limited <i>Incorporated in Liberia</i>	Investment holding	HK\$2	100
Bassindale Limited	Investment holding	US\$500	100

\* Direct subsidiary of the Company

#### Jointly controlled entities

<b>Name</b>	<b>Principal activity</b>	<b>Issued and fully paid ordinary share capital except otherwise stated</b>	<b>Group equity interest %</b>
<i>Incorporated in British Virgin Islands</i> Fresh Outlook Property Limited	Investment holding	US\$100	50.0
<i>Incorporated in Hong Kong</i> China INFOBANK Limited	Internet content provider	HK\$27,000,000	40.0
Express Wind Limited	Investment holding	HK\$10,000	25.0
<i>Incorporated in the People's Republic of China ("PRC")</i> Cultural Palace Entertainment Company Limited <sup>#</sup>	Leasing of an entertainment complex	US\$4,750,000	25.0
北京康標科技有限公司 <sup>##</sup>	Investment and distribution of medical equipment	RMB1,311,923	34.5

# Cooperative Joint Venture operates in the PRC

## Wholly owned Foreign Enterprises operates in the PRC

## Associated companies

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest %
<i>Incorporated in Bermuda</i>			
Asia Standard Hotel Group Limited	Hotel, catering services and travel	HK\$101,042,000	31.5
Asia Standard International Group Limited	Property development, property leasing, hotel and travel	HK\$50,760,000	40.5
<i>Incorporated in Hong Kong</i>			
Asia Standard Development (Holdings) Limited	Investment holding	HK\$10 and non-voting deferred share capital of HK\$362,892,949	40.5
Asia Standard Finance Company Limited	Financing services	HK\$1,000,000	40.5
Asia Standard International Limited	Investment holding	HK\$1,214,916,441	40.5
Asia Standard Management Services Limited	Management services	HK\$2	40.5
Full Union Development Limited	Property development	HK\$2	40.5
Get Rich Enterprises Limited	Property development	HK\$2	32.4
Hoi Chak Properties Limited	Property investment	HK\$10 and non-voting deferred share capital of HK2	40.5
JBC Travel Company Limited	Travel agency	HK\$2,500,000	31.5
Lucky New Investment Limited	Property development	HK\$1	20.3
Paramount Shine Limited	Property development	HK\$2	20.3
Master Asia Enterprises Limited	Property development	HK\$10,000	40.5
Stone Pole Limited	Hotel holding	HK\$10	31.5
Tilpifa Company Limited	Property investment	HK\$10 and non-voting deferred share capital of HK\$10,000	40.5
Tonlok Limited	Property development	HK\$1,000	40.5
Union Rich Resources Limited	Property development	HK\$2	32.4
Vinstar Development Limited	Hotel holding	HK\$2	31.5
Vitasalin Asia Limited	Distribution of health care and beauty products	HK\$10,000	17.5
Weststar Enterprises Limited	Property development	HK\$2	20.3
Winfast Engineering Limited	Construction	HK\$2	40.5
<i>Incorporated in British Virgin Islands</i>			
Enrich Enterprises Limited	Hotel holding	US\$1	31.5
Global Gateway Corp.	Hotel operation	US\$1	31.5
Glory Ventures Enterprises Inc.	Hotel holding	US\$1	31.5
Goldmax International Limited	Investment holding	US\$1,000	20.3

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest %
Incorporated in Cayman Islands Asia Standard International Capital Limited	Financing services	US\$2	40.5
Q9 Technology Holdings Limited	Investment holding	HK\$12,463,500	32.0
Incorporated in the PRC 美聲節能科技(珠海)有限公司 #	Distribution of energy saving devices	RMB2,119,400	20.0
漁陽房地產開發(深圳)有限公司 #	Property development	RMB40,000,000	10.7

# Wholly owned Foreign Enterprises operates in the PRC

### 37 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 19th July 2005.



## 3. SUMMARY OF UNAUDITED INTERIM RESULTS

The following is the unaudited condensed consolidated profit and loss account of the Group for the six months ended 30 September 2004 and 30 September 2005 and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2005, together with accompanying notes to the accounts extracted from the interim report of the Company dated 20 December 2005:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT — UNAUDITED

	Note	Six months ended 30th September	
		2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	6	10,867	361,158
Cost of sales		<u>(5,390)</u>	<u>(260,643)</u>
Gross profit		5,477	100,515
Administrative expenses		(8,739)	(57,053)
Other charges	7	<u>(22,003)</u>	<u>(35,077)</u>
Operating (loss)/profit	8	(25,265)	8,385
Finance costs	9	(675)	(50,604)
Share of profits less losses of Jointly controlled entities Associated companies		8,126	159,854
		<u>19,120</u>	<u>(18,477)</u>
Profit before taxation		1,306	99,158
Taxation credit	10	<u>753</u>	<u>3,464</u>
Profit for the period		<u>2,059</u>	<u>102,622</u>
Attributable to:			
Shareholders of the Company		2,059	38,689
Minority interests		<u>—</u>	<u>63,933</u>
		<u>2,059</u>	<u>102,622</u>
Dividend	11	<u>—</u>	<u>3,997</u>
Earnings per share			
Basic	12	<u>0.88 cents</u>	<u>22.3 cents</u>
Diluted	12	<u>0.86 cents</u>	<u>17.5 cents</u>

## CONSOLIDATED BALANCE SHEET — UNAUDITED

		<b>30th September 2005</b>	<b>31st March 2005</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(restated)</i>
<b>Non-current assets</b>			
Property, plant and equipment	13	1,182	1,362
Jointly controlled entities		7,951	7,832
Associated companies		1,393,676	1,371,690
Deferred tax assets		4,532	5,303
		<u>1,407,341</u>	<u>1,386,187</u>
<b>Current assets</b>			
Debtors and prepayments	14	154,181	131,426
Derivative financial instruments		4,302	—
Financial assets at fair value through profit and loss		19,497	28,654
Bank balances and cash		71,323	128,843
		<u>249,303</u>	<u>288,923</u>
<b>Current liabilities</b>			
Creditors and accruals	15	39,496	39,347
Short term bank loans and overdrafts, secured		12,817	14,676
Current portion of long term loans	18	12,452	37,372
		<u>64,765</u>	<u>91,395</u>
Net current assets		<u>184,538</u>	<u>197,528</u>
Total assets less current liabilities		<u>1,591,879</u>	<u>1,583,715</u>
<b>Non-current liabilities</b>			
Long term bank loans	18	—	6,226
Amounts due to minority shareholders		8,311	8,311
Deferred tax liabilities		11	11
		<u>8,322</u>	<u>14,548</u>
Net assets		<u>1,583,557</u>	<u>1,569,167</u>
<b>Equity</b>			
Share capital	16	23,452	23,452
Reserves	17	1,560,105	1,545,715
Equity attributable to the Company's shareholders		<u>1,583,557</u>	<u>1,569,167</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED

	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(23,319)	(280,959)
Net cash (used in)/from investing activities	(1,196)	287,764
Net cash (used in)/from financing activities	<u>(30,221)</u>	<u>83,335</u>
Net (decrease)/increase in cash and cash equivalents	(54,736)	90,140
Cash and cash equivalents at beginning of period	91,006	24,798
Changes in exchange rates	<u>—</u>	<u>293</u>
Cash and cash equivalents at end of period	<u>36,270</u>	<u>115,231</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash (excluding pledged deposits)	37,087	123,285
Bank overdrafts	<u>(817)</u>	<u>(8,054)</u>
	<u>36,270</u>	<u>115,231</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	<b>Shareholders of the Company</b> <i>HK\$'000</i>	<b>Minority interests</b> <i>(Note)</i> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st April 2004, as previously reported	2,090,423	2,245,000	4,335,423
Retrospective effects of changes in accounting policies ( <i>note 3</i> )	<u>(466,909)</u>	<u>(647,876)</u>	<u>(1,114,785)</u>
At 1st April 2004, as restated	<u>1,623,514</u>	<u>1,597,124</u>	<u>3,220,638</u>
Currency translation differences and net income directly recognised in the equity	1,693	2,472	4,165
Profit for the period	<u>38,689</u>	<u>63,933</u>	<u>102,622</u>
Total recognised income for the period	<u>40,382</u>	<u>66,405</u>	<u>106,787</u>
Conversion of convertible notes	<u>2,000</u>	<u>—</u>	<u>2,000</u>
At 30th September 2004	<u>1,665,896</u>	<u>1,663,529</u>	<u>3,329,425</u>
At 1st April 2005, as previously reported	2,001,807	—	2,001,807
Retrospective effects of changes in accounting policies ( <i>note 3</i> )	<u>(432,640)</u>	<u>—</u>	<u>(432,640)</u>
	1,569,167	—	1,569,167
Opening adjustment for the adoption of HKAS 39 ( <i>note 3</i> )	<u>7,466</u>	<u>—</u>	<u>7,466</u>
At 1st April 2005, as restated	<u>1,576,633</u>	<u>—</u>	<u>1,576,633</u>
Currency translation differences and net income directly recognised in equity	1,517	—	1,517
Profit for the period	<u>2,059</u>	<u>—</u>	<u>2,059</u>
Total recognised income for the period	<u>3,576</u>	<u>—</u>	<u>3,576</u>
Employee share option reserve	<u>3,348</u>	<u>—</u>	<u>3,348</u>
At 30th September 2005	<u>1,583,557</u>	<u>—</u>	<u>1,583,557</u>

*Note:*

In prior years, minority interests were not classified as equity and were not presented in this statement.

## NOTES TO THE INTERIM CONSOLIDATED ACCOUNTS

**1 BASIS OF PREPARATION**

This unaudited consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of this consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKAS which are effective for accounting periods commencing on or after 1st January 2005 as described in note 2 below. A summary of effects of the changes in accounting policies between Statements of Standard Accounting Practices (“SSAP”) in effect until 31st December 2004 (the “Old Hong Kong Accounting Standards”) and the new HKFRS which has been applied in the preparation of the financial statements for the six months ended 30th September 2005 is set out in note 3.

**2 CHANGES IN ACCOUNTING POLICIES**

Commencing from 1st April 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The changes mainly affect the Group through its associated companies. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HK-Int 2	The Appropriate Policies for Hotel Properties
HK-Int 3	Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Lease — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

**(i) Presentation of Financial Statements**

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities, associated companies and other disclosures.

**(ii) Hotel properties**

The adoption of HKAS 16 and HK-Int 2 has resulted in a change in the accounting policy for the hotel properties, which are now stated at cost less accumulated depreciation and impairment loss. In prior years, hotel properties were stated at valuation and were not depreciated.

Depreciation is calculated to write off the carrying value of the assets on a straight line basis over the shorter of the unexpired period of the land lease and the anticipated remaining useful lives of the assets. The useful lives which have been adopted are summarised as follows:

Hotel building	Shorter of 50 years or the remaining lease period of the land on which the hotel building is located
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Computer equipment	3 $\frac{1}{3}$ years

No depreciation is provided for freehold land.

(iii) **Leasehold land in Hong Kong**

The adoption of revised HKAS 17 and HK-Int 4 has resulted in a change in the accounting policy relating to the reclassification of leasehold land to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost.

(iv) **Goodwill**

The adoption of HKAS 36, HKAS 38 and HKFRS 3 results in a change in the accounting policy for goodwill. Amortisation of goodwill ceased from 1st April 2005; accumulated amortisation as at 31st March 2005 has been eliminated with a corresponding decrease in the cost of goodwill and from the year ending 31st March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

(v) **Financial instruments**

The adoption of HKASs 32 and 39 has resulted in a change in the classification of financial assets at fair value through profit and loss. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

(vi) **Investment properties**

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the changes in fair value were credited or charged to revaluation reserve.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use.

(vii) **Share options**

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. The Group now expenses the cost of share options in the profit and loss account whereas no costs were recognised in the past.

(viii) **Pre-completion sale of development properties**

The adoption of HK-Int 3 has resulted in the change in the accounting policy for the revenue recognition of pre-completion sale of development properties. The stage of completion method would no longer be used to recognise revenue from pre-completion sale of development properties and revenue is now recognised upon completion of those properties.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than those stated below:

- (a) HKAS 39 — the adjustments to recognise all derivatives at fair value and to re-measure those financial assets or financial liabilities are adjusted to the opening balance of the revenue reserve at 1st April 2005;
- (b) HKFRS 3 and HK-Int 3 — prospectively after the adoption date.

The adoption of new/revised HKASs 2, 7, 8, 10, 21, 23, 24, 27, 28, 31 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies.

### 3 SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

#### (a) Effects of the changes in accounting policies on consolidated profit and loss account

	<b>Profit/(loss) attributable to shareholders of the Company</b> <i>HK\$'000</i>	<b>EPS</b> <i>HK cents</i>
<b>Period ended 30th September 2005</b>		
Reported under the Old Hong Kong Accounting Standards	<u>(26,390)</u>	<u>(11.25)</u>
<b>Increase/(decrease) in share of profits less losses of associated companies</b>		
HKAS 16 and Int 2		
Net effect of increase in depreciation, renovation costs capitalised and revaluation deficit of hotel properties	3,085	1.32
HKAS 17 and HK-Int 4		
Amortisation of leasehold land	(5,917)	(2.53)
HKAS 32 and HKAS 39		
Decrease in net interest expense	80	0.03
HKAS 40		
Surplus on revaluation of investment properties	46,287	19.74
HK-Int 21		
Increase in taxation charge	(8,100)	(3.45)
<b>Increase/(decrease) in profit of the Group</b>		
HKAS 32 and HKAS 39		
Loss in fair value (net of tax)	(3,638)	(1.55)
HKFRS 2		
Increase in employee share option expense	<u>(3,348)</u>	<u>(1.43)</u>
	<u>28,449</u>	<u>12.13</u>
Reported under new HKFRS	<u>2,059</u>	<u>0.88</u>

	Profit/(loss) attributable to shareholders of the Company <i>HK\$'000</i>	EPS <i>HK cents</i>
<b>Period ended 30th September 2004</b>		
Reported under the Old Hong Kong Accounting Standards	<u>53,263</u>	<u>30.68</u>
HKAS 16 and HK-Int 2		
Increase in depreciation	(24,354)	(14.02)
Renovation costs of hotel property capitalised	2,610	1.50
Decrease in taxation charge	4,411	2.54
Decrease in profit attributable to minority interests	10,373	5.97
HKAS 17 and HK-Int 4		
Amortisation of leasehold land	(14,901)	(8.57)
Increase in interest expense	(1,537)	(0.89)
Decrease in taxation charge	299	0.17
Decrease in share of profits less losses of		
Jointly controlled entities	(65)	(0.04)
Associated companies	(1,803)	(1.04)
Decrease in profit attributable to minority interests	10,600	6.10
HKAS 32		
Increase in interest expense	(502)	(0.29)
Decrease in profit attributable to minority interests	<u>295</u>	<u>0.17</u>
	<u>(14,574)</u>	<u>(8.40)</u>
Reported under new HKFRS	<u><u>38,689</u></u>	<u><u>22.28</u></u>





	HKAS 16 and HK-Int 2 HK\$'000	HKAS 17 and HK-Int 4 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKAS- Int 21 HK\$'000	Total HK\$'000
<b>At 1st April 2004</b>						
Increase/(decrease) in equity						
Hotel properties revaluation reserve	(120,156)	—	—	—	—	(120,156)
Revenue reserve	(160,726)	(137,088)	1,413	(6,913)	(43,439)	(346,753)
Minority interests	(409,038)	(195,444)	1,582	(6,175)	(38,801)	(647,876)
Equity	<u>(689,920)</u>	<u>(332,532)</u>	<u>2,995</u>	<u>(13,088)</u>	<u>(82,240)</u>	<u>(1,114,785)</u>

#### 4 FINANCIAL RISK MANAGEMENT

The Group and its associated companies' activities expose them to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group and its associated companies' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's associated companies have used derivative financial instruments to hedge certain risk exposures.

#### 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group and its associated companies makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group and its associated companies within the next financial year include those related to investment properties, impairment of assets and income taxes.

#### 6 TURNOVER AND SEGMENT INFORMATION

The Group and its associated companies are principally engaged in property development and investment, hotel, travel agency and management services operations. Turnover comprises gross revenues from property sales, property leasing, hotel and travel agency, management services, investment and interest income.

##### Primary reporting format — business segments

The Group and its associated companies are organised into four main business segments, comprising property sales, property leasing and management, hotel and travel and investment. There is no other significant identifiable separate business segment. Segment revenue from external customers is after elimination of inter-segment revenues. 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.

In January 2005, the Group's interest in Asia Standard International Group Limited ("Asia Standard") decreased to below 50% and Asia Standard then became an associated company of the Group. The result of Asia Standard was consolidated into the profit and loss accounts of the Group up to the date of disposal and was equity accounted for thereafter. Additional segment information of jointly controlled entities and associated companies was set out in supplementary notes.

	<b>Property sales</b>	<b>Property leasing and management</b>	<b>Hotel and travel</b>	<b>Investments</b>	<b>Other operations</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30th September 2005						
Segment revenue	—	5,620	—	1,604	3,643	10,867
Contribution to segment results	—	1,709	—	125	3,643	5,477
Other charges	—	(24)	—	(21,818)	(161)	(22,003)
Unallocated corporate expenses						(8,739)
Operating loss						(25,265)
Finance costs						(675)
Share of results of						
Jointly controlled entities <i>(note i)</i>						8,126
Associated companies <i>(note i)</i>						19,120
Profit before taxation						1,306
Taxation credit						753
Profit for the period						2,059

	Property sales <i>HK\$'000</i>	Property leasing and management <i>HK\$'000</i>	Hotel and travel <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Group <i>HK\$'000</i>
Six months ended 30th September 2004 (restated)						
Segment revenue	<u>36,165</u>	<u>30,759</u>	<u>286,722</u>	<u>2,214</u>	<u>5,298</u>	<u>361,158</u>
Contribution to segment results	(18,805)	23,649	53,060	127	5,298	63,329
Other income/ (charges)	6,691	(232)	(36,059)	(17,662)	12,185	(35,077)
Unallocated corporate expenses						<u>(19,867)</u>
Operating profit						8,385
Finance costs						(50,604)
Share of results of						
Jointly controlled entities <i>(note i)</i>						159,854
Associated companies <i>(note i)</i>						<u>(18,477)</u>
Profit before taxation						99,158
Taxation credit						<u>3,464</u>
Profit for the period						<u>102,622</u>

*Note:*

(i) Share of results of jointly controlled entities and associated companies

	2005		2004	
	Jointly controlled entities <i>HK\$'000</i>	Associated companies <i>HK\$'000</i>	Jointly controlled entities <i>HK\$'000</i>	Associated companies <i>HK\$'000</i>
Property sales	—	(3,755)	207,195	(2,226)
Property leasing	—	60,014	—	2,827
Hotel and travel	—	13,152	—	—
Investments	8,126	(1,114)	(10,876)	(18,568)
Other operations	—	(9,531)	—	—
Finance costs	—	(23,609)	—	—
Unallocated corporate expenses	—	(7,808)	—	—
Taxation	—	(8,229)	(36,465)	(510)
	<u>8,126</u>	<u>19,120</u>	<u>159,854</u>	<u>(18,477)</u>

## Secondary reporting format — geographical segments

The activities of the Group are mainly based in Hong Kong. A summary of geographical segments is set out as follows:

	Segment revenue		Operating (loss)/profit	
	Six months ended 30th		Six months ended 30th	
	September		September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(restated)
Hong Kong	10,867	313,381	(25,265)	(2,338)
Mainland China	—	4,013	—	386
Canada	—	43,764	—	10,337
	<u>10,867</u>	<u>361,158</u>	<u>(25,265)</u>	<u>8,385</u>

## 7 OTHER CHARGES

	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Net fair value losses on financial assets at fair value through profit and loss	(21,818)	(15,662)
Write-back of provision for diminution in value of properties under development/held for sales	—	11,400
Amortisation of goodwill	—	(3,232)
Amortisation of leasehold land	—	(14,860)
Depreciation	(185)	(25,047)
Write-back of provision for doubtful debts	—	12,324
	<u>(22,003)</u>	<u>(35,077)</u>

## 8 OPERATING (LOSS)/PROFIT

	Six months ended 30th September	
	2005	2004
	HK\$'000	HK\$'000 (restated)
Operating (loss)/profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Net rental income ( <i>note (a)</i> )	—	22,520
Interest income	3,382	5,238
Net realised gains on financial assets at fair value through profit and loss	125	—
Dividends from listed investments	—	142
	<u>          </u>	<u>          </u>
<b>Charging</b>		
Staff costs, including Directors' emoluments ( <i>note (b)</i> )	10,527	46,659
Net realised losses on financial assets at fair value through profit and loss	—	15
	<u>          </u>	<u>          </u>
<i>Notes:</i>		
<b>(a) Net rental income</b>		
Gross rental income		
Investment properties	—	16,052
Properties held for sale	—	9,156
	<u>          </u>	<u>          </u>
Outgoings	—	25,208
	<u>          </u>	<u>          </u>
	—	22,520
<b>(b) Staff costs</b>		
Wages and salaries	7,075	47,148
Retirement benefits costs	104	1,486
Employee share option benefits	3,348	—
	<u>          </u>	<u>          </u>
Capitalised as properties under development	10,527	48,634
	<u>          </u>	<u>          </u>
	<u>10,527</u>	<u>46,659</u>

## 9 FINANCE COSTS

	Six months ended 30th September	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(restated)</i>
Interest expense		
Long term bank loans	404	28,285
Convertible bonds	—	15,547
Convertible notes	—	2,448
Loans from minority shareholders of subsidiaries	—	1,545
Short term bank loans and overdrafts	215	6,534
Other incidental borrowing costs	<u>56</u>	<u>1,590</u>
	675	55,949
Capitalised as cost of properties under development		
Interest expense	—	(4,805)
Other incidental borrowing costs	<u>—</u>	<u>(540)</u>
	<u>675</u>	<u>50,604</u>

## 10 TAXATION CREDIT

	Six months ended 30th September	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(restated)</i>
<b>Current taxation</b>		
Hong Kong profits tax	—	(136)
Overprovisions in prior years	—	140
<b>Deferred taxation</b>		
Relating to the origination and reversal of temporary differences	<u>753</u>	<u>3,460</u>
	<u>753</u>	<u>3,464</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Share of tax of jointly controlled entities and associated companies for the six months ended 30th September 2005 of nil (2004: HK\$36,465,000) and HK\$8,229,000 (2004: HK\$510,000) are included in the profit and loss account as share of profits less losses of jointly controlled entities and associated companies respectively.

**11 DIVIDEND**

No interim dividend was declared for the period (2004: HK\$3,997,000).

**12 EARNINGS PER SHARE**

The calculation of earnings per share is based on profit attributable to shareholders of the Company of HK\$2,059,000 (2004 restated: HK\$38,689,000) and on the weighted average of 234,516,210 (2004: 173,629,706) shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September 2005 is based on HK\$2,009,000 equivalent to profit attributable to shareholders of HK\$2,059,000 less decreased share of profit of a listed associated company of HK\$50,000 assuming the share options of the listed associated company had been exercised and the weighted average number of 234,516,210 shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September 2004 is based on HK\$34,878,000 equivalent to the profit attributable to shareholders of HK\$38,689,000 plus after tax interest savings of HK\$13,724,000 less increase in profit attributable to minority interests of HK\$17,535,000 and, 199,826,426 shares equivalent to the weighted average number of 173,629,706 shares in issue during the period plus 26,196,720 shares deemed to be in issue assuming the convertible notes had been converted.

**13 PROPERTY, PLANT AND EQUIPMENT**

	<b>Amount</b> <i>HK\$'000</i>
<b>Cost</b>	
At 31st March 2005	3,216
Addition	<u>5</u>
<b>At 30th September 2005</b>	3,221 -----
<b>Accumulated depreciation</b>	
At 31st March 2005	1,854
Charge for the year	<u>185</u>
<b>At 30th September 2005</b>	<u>2,039</u> -----
<b>Net book value</b>	
<b>At 30th September 2005</b>	<u>1,182</u>
At 31st March 2005	<u>1,362</u>

**14 DEBTORS AND PREPAYMENTS**

Debtors and prepayments include trade debtors, utility and other deposits, interest and other receivables.

Trade debtors amounted to HK\$411,000 (31st March 2005: HK\$349,000) and 87% of which (31st March 2005: 90%) were aged under six months. The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.



## 15 CREDITORS AND ACCRUALS

Creditors and accruals include trade creditors, interest and other payables and various accruals. Trade creditors amounted to HK\$3,799,000 (31st March 2005: HK\$3,779,000), 91% (31st March 2005: 85%) of which were aged under six months.

## 16 SHARE CAPITAL

Shares of HK\$ 0.1 each	Number of shares	Amount HK\$'000
Authorised		
At 31st March and 30th September 2005	<u>750,000,000</u>	<u>75,000</u>
Issued and fully paid		
At 31st March and 30th September 2005	<u>234,516,210</u>	<u>23,452</u>

Share options were granted to directors and to employees to subscribe for shares in accordance with the terms and conditions of the share option scheme. Movements in the number of share options outstanding, their exercise price and expiry dates are as follows:

Grant date	Expiry date	Exercise price HK\$ per share	Share options	
			30th September 2005	31st March 2005
12th February 2004	11th February 2014	3.300	6,872,000	6,872,000
25th February 2005	24th February 2015	2.895	5,400,000	5,400,000
8th April 2005	7th April 2015	2.425	<u>2,700,000</u>	<u>—</u>
			<u>14,972,000</u>	<u>12,272,000</u>

With the adoption of new accounting policies, fair value of options granted are to be expensed to profit and loss account over its vesting period. The policy is effective for all outstanding non-vested options at or new grants since the beginning of the period. The fair value of the options charged to profit and loss account of the current period using Binomial option pricing model is HK\$3,348,000. The following assumptions were used to calculate the fair values of share options granted on 8th April 2005:

Closing share price at the date of grant (HK\$)	2.425
Exercise price (HK\$)	2.425
Expected life of options (years)	10
Expected volatility (%) — note (i)	50.59
Expected dividend yield (%) — note (ii)	2.60
Risk free rate (%)	4.24

## Notes:

- (i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediately preceding the grant date.

- (ii) It is based on prospective dividend yield of the shares at 8th April 2005.
- (iii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares.

## 17 RESERVES

	Revaluation Reserve					Share option reserve	Revenue reserve	Total
	Share premium	Capital reserve	Investment properties	Hotel properties	Contributed surplus			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2005, as previously reported	1,527,278	360,302	39,994	124,175	1,002,675	—	(1,076,069)	1,978,355
Retrospective effects of changes in accounting policies ( <i>note 3</i> )	—	—	(39,994)	(124,175)	—	—	(268,471)	(432,640)
	1,527,278	360,302	—	—	1,002,675	—	(1,344,540)	1,545,715
Opening adjustment for the adoption of HKAS 39 ( <i>note 3</i> )	—	—	—	—	—	—	7,466	7,466
At 1st April 2005, as restated	1,527,278	360,302	—	—	1,002,675	—	(1,337,074)	1,553,181
Offsetting accumulated losses ( <i>note</i> )	—	—	—	—	(920,762)	—	920,762	—
Profit for the period	—	—	—	—	—	—	2,059	2,059
Share options issued	—	—	—	—	—	3,348	—	3,348
Translation differences	—	—	—	—	—	—	1,517	1,517
At 30th September 2005	<u>1,527,278</u>	<u>360,302</u>	<u>—</u>	<u>—</u>	<u>81,913</u>	<u>3,348</u>	<u>(412,736)</u>	<u>1,560,105</u>
Representing:								
2005 declared and approved scrip distribution	—	—	—	—	10,084	—	—	10,084
Others	<u>1,527,278</u>	<u>360,302</u>	<u>—</u>	<u>—</u>	<u>71,829</u>	<u>3,348</u>	<u>(412,736)</u>	<u>1,550,021</u>
	<u>1,527,278</u>	<u>360,302</u>	<u>—</u>	<u>—</u>	<u>81,913</u>	<u>3,348</u>	<u>(412,736)</u>	<u>1,560,105</u>

*Note:*

Pursuant to a resolution passed in the Annual General Meeting held in August 2005, an amount of HK\$920,762,000 in the contributed surplus account was applied to set off the accumulated loss of the company.

**18 LONG TERM BANK LOANS**

	<b>30th September 2005</b>	<b>31st March 2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, secured		
Repayable within one year	12,452	37,372
Repayable between one and two years	—	6,226
	<u>12,452</u>	<u>43,598</u>
Current portion included in current liabilities	<u>(12,452)</u>	<u>(37,372)</u>
	<u>—</u>	<u>6,226</u>

**19 CAPITAL COMMITMENTS**

The Group has no capital commitment as at 30th September 2005 and 31st March 2005.

**20 CONTINGENT LIABILITIES**

There were no material contingent liabilities existing as at 30th September 2005 and 31st March 2005.

**4. MATERIAL CHANGE**

As at the Latest Practicable Date, save for (i) the completion of the subscription of 16,000,000 new Shares at HK\$1.85 per Share on 23 January 2006 pursuant to the Top-Up Subscription Agreement, details of which were set out in the announcement of the Company dated 11 January 2006; and (ii) changes in the Group's accounting policies as a result of the adoption of the relevant new/revised Hong Kong Financial Reporting Standards as disclosed in the 2005 interim report of the Company, the Directors were not aware of any material change in the financial or trading position or outlook of the Group since 31 March 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

**5. INDEBTEDNESS**

As at the close of business on 31 January 2006, being the latest practicable date for ascertaining certain information relating to this indebtedness statement, the Group had outstanding secured bank overdrafts of approximately HK\$6.24 million which is repayable on demand and amounts due to minority shareholders of subsidiaries of approximately HK\$8.31 million which have no specific terms of repayment.

The Group's above outstanding borrowings were secured by legal charges on certain shares of listed associated companies quoted on the Stock Exchange with an aggregate market value of approximately HK\$64.97 million as at 31 January 2006.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, at the close of business on 31 January 2006, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

## 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

### **Business and financial review for the six months ended 30 September 2005**

The Group's shareholdings in Asia Standard International Group Limited ("Asia Standard") remained unchanged at 40.5% throughout the current period under review.

Asia Standard was a subsidiary and its results were fully consolidated by the Group. In January 2005, Asia Standard became an associated company of the Group, following a decrease of the Company's shareholdings in Asia Standard to below 50%. Since then, the results and net assets of Asia Standard were equity accounted for by the Group.

#### *Results*

With the results of Asia Standard no longer being consolidated, the Group's turnover for the period was reduced to HK\$11 million, as compared with HK\$361 million of last corresponding period.

The Group reported a profit attributable to Shareholders of HK\$2 million as compared to a profit of HK\$39 million of the last interim period, which has been restated due to changes in various accounting policies during the period.

The Directors had not recommended the payment of any interim dividend (2004: HK2 cents per Share) for the period.

#### *Properties sales and leasing*

Asia Standard achieved a HK\$52 million profit attributable to Shareholders compared with HK\$148 million of last corresponding interim period. The associated company had yet to launch sales of new developments during the period.

The residential development in Lei Yue Mun, Canaryside was ready for presale, expecting a revenue of approximately HK\$1 billion when completely sold. Construction was at superstructure stage and completion expected towards the end of 2006.

Low-rise development in Ping Shan was also at superstructure stage. Pre-sale consent would be applied shortly and would be the next put to market following Canaryside.

Land exchange and premium negotiation had been on-going for developments in Ting Kau, Aberdeen, Hung Shui Kiu and Lam Tei.

Asia Standard had over 1.1 million sq.ft gross floor area of properties under development.

Rental income improved by 8% over the last interim period. With the continuing renewal of tenancies, it was expected that the rental income would continue to increase. During the period the Group's investment properties portfolio recorded a HK\$114 million attributable surplus on its revaluation, which was reflected in the profit and loss account after deducting the associated deferred tax provision.

### *Hotel*

Hotel group reported a HK\$290 million turnover and HK\$25 million loss compared with HK\$287 million turnover and HK\$11 million loss (restated) of last corresponding period.

The prior period's interim result was restated in light of the new accounting policies under which additional depreciation and amortisation charge of HK\$37 million was provided for the hotel properties.

Prospects for hotel performance has continued to be very promising as a result of economic recovery, opening of Disney Theme Park, various large scale conferences and exhibitions hosted by Hong Kong, and the addition of more PRC cities into the Individual Visit Scheme. Hong Kong based hotels achieved a combined revenue increment of 14% against that of last corresponding period, mostly attributable to the increased room rate.

Empire Landmark in Canada also experienced a 14% revenue increase, with 9% attributable to exchange rate increment.

The hotel group recently raised approximately HK\$192 million new equity and all were used to repay its bank borrowings.

### *Financial review*

The Group was at net cash position as at both 30 September 2005 and 31 March 2005.

Following the adoption of new/revised accounting standards, net asset value of the Group as at 31 March 2005 was restated and decreased by HK\$433 million, due to the decrease in its share of net assets of Asia Standard (which was substantially the result of changing the carrying value of hotel buildings from market value to cost less accumulated depreciation and amortisation of the underlying leasehold land). Net asset value of the Group as at 30 September 2005 and 31 March 2005 remained approximately the same at HK\$1.6 billion.

Certain listed securities were pledged to secure banking facilities of the Group. The Group did not provide any guarantees to banks and financial institutions on credit facilities to jointly controlled entities, associated companies and third parties.

## 7. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment holding company. The principal activities of its major investee companies include investment and development of properties and investment and operation of hotels, restaurants, travel agency and securities investment. It is the Group's investment strategy to invest continuously in one of these sectors.

In the past year, the economy of Hong Kong has showed strong indication of recovery from economic downturn. Steady economic growth has been observed in Hong Kong and the greater China market. In particular, the leisure and retail businesses in Hong Kong continued to flourish as a result of the opening of Disneyland Theme Park, the Individual Visit Scheme and the new development of the Closer Economic Partnership Arrangement. The Board is positive on the sustainable high occupancy rate of the hotel operated by the Company's associated company. Across the ocean, the development in Macau advanced in an even faster pace as the result of the liberalization of the gaming industry. These developments have made Macau and Hong Kong unique as business and leisure, shopping, family holidays destination for travelers and businessmen in Mainland and Southeast Asia. The Group has extensive experiences in investing in the property and leisure sectors. The Board is optimistic about the investment opportunities in Hong Kong, Macau and the PRC and the Company will increase its investment portfolio in these regions when the opportunity arises.

After the completion of the Rights Issue, the capital base of the Group will be significantly enhanced which prepares the Company to be financially flexible to respond to the market prospects. Endowed with the fund derived from the Rights Issue, the Company will actively look for any business opportunities which are beneficiary to the Group. Meanwhile, the Directors will closely monitor the Group's existing investment portfolio to ensure that shareholders' funding will be placed in areas where there are high growth and earning potential.

## 8. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that taking into account the present internal financial resources of the Group, the available loan facilities and the net proceeds to be derived from the Rights Issue, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (a) The following is an illustrative and unaudited pro forma net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Rights Issue on the net tangible assets of the Group as if it had taken place on 30 September 2005.

The unaudited pro forma net assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group following the Rights Issue.

	<b>Unaudited consolidated net tangible assets of the Group as at 30 September 2005</b>	<b>Unaudited consolidated net tangible assets per Share of the Group as at 30 September 2005</b>	<b>Estimated net proceeds from the proposed Rights Issue</b>	<b>Unaudited pro forma net tangible assets of the Group</b>	<b>Unaudited pro forma net tangible assets per Share</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
	<i>(Note 1)</i>		<i>(Note 2)</i>		<i>(Note 3)</i>
Based on 127,278,986 Rights Shares issued	<u>1,583,557</u>	<u>6.64</u>	<u>160,000</u>	<u>1,743,557</u>	<u>4.77</u>

*Notes:*

1. The unaudited consolidated net tangible assets of the Group as at 30 September 2005 was extracted from the published interim report of the Group as set out in Appendix I to this circular.
2. The estimated net proceeds from the Rights Issue are based on 127,278,986 Rights Shares issued at subscription price of HK\$1.30 per Rights Share (after deduction of the expenses of approximately HK\$5 million), and takes no account of any additional Rights Shares to be issued upon the exercise of any Outstanding Options on or before the Record Date.
3. The unaudited pro forma net tangible asset value per Share is arrived at after aggregating the unaudited consolidated net tangible assets of approximately HK\$1,583,557,000 of the Group as at 30 September 2005 (*Note 1*) and the estimated net proceeds of HK\$160,000,000 from the Rights Issue (*Note 2*) and on the basis that 365,836,958 Shares were in issue, representing the total of 234,516,210 Shares in issue as at 30 September 2005 and 4,041,762 Shares issued on 14 October 2005 as scrip distribution for the year ended 31 March 2005; and assuming the Rights Issue has been completed on 30 September 2005 and 127,278,986 additional Shares were issued (without taking account of any Rights Share to be issued upon the exercise of any Outstanding Options).
4. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 September 2005. Accordingly, the placing of 16,000,000 Shares on 23 January 2006 is not reflected in this pro forma statement.

## (b) Letter on the unaudited pro forma financial information



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong

3 March 2006

The Directors  
Asia Orient Holdings Limited

Dear Sirs

We report on the unaudited pro forma financial information of Asia Orient Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on page 123 under the heading of “Unaudited pro forma financial information” in Appendix II of the Company’s circular dated 3 March 2006 (the “Circular”), in connection with the proposed rights issue (the “Rights Issue”) by the Company. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue might have affected the net tangible assets of the Group.

**Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 13 of Appendix 1B and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to the principles set out in Technical Release 18/98 “Pro Forma Financial Information — Guidance for the preparers under the Listing Rules” issued by the Institute of Chartered Accountants in England and Wales.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.



**Basis of opinion**

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

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

The unaudited pro forma financial information has been prepared on the bases set out on page 123 of the Circular for illustrative purpose only and, because of its hypothetical nature, it may not be indicative of the financial position of the Group as at 30 September 2005 or any future date.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. 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, 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 statement in this circular misleading.

## 2. SHARE CAPITAL AND OPTIONS

### (a) Share capital

The authorised and issued capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue (assuming no Outstanding Options are exercised on or before the Record Date) will be, as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>750,000,000</u>	Shares	<u>75,000,000.00</u>
 <i>Issued and fully paid:</i>		
254,557,972	Shares in issue as at the Latest Practicable Date	25,455,797.20
127,278,986	Rights Shares to be issued pursuant to the Rights Issue (assuming no Outstanding Options are exercised on or before the Record Date)	12,727,898.60
<u>381,836,958</u>	Shares	<u>38,183,695.80</u>

All the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank *pari passu* in all respects with the existing Shares in issue on the date of allotment of the Rights Shares in fully-paid form. The Company had no debt securities in issue as at the Latest Practicable Date.

There has been no alteration to the authorised share capital of the Company since the end of the last financial year of the Company, being 31 March 2005. On 23 January 2006, 16,000,000 new Shares were issued fully-paid at HK\$1.85 per Share pursuant to the Top-Up Subscription Agreement, details of which were set out in the announcement of the Company dated 11 January 2006. On 14 October 2005, the Company issued 4,041,762 new Shares to its shareholders at HK\$2.495 per Share as scrip distribution for the year ended 31 March 2005. Save for the issue of new Shares mentioned above, there has been no alteration to the issued share capital of the Company since the end of the last financial year of the Company, being 31 March 2005.

## (b) Share options

Details of the Outstanding Options as at the Latest Practicable Date were as follows:

	Exercise price per Share HK\$	Date of grant	Exercisable period	Number of underlying Shares subject to Outstanding Options interested
Employees of the Group	2.895	25 February 2005	25 February 2005 to 24 February 2015	5,400,000
Employees of the Group	2.425	8 April 2005	8 April 2005 to 7 April 2015	2,700,000
Fung Siu To Clement	3.3	12 February 2004	12 February 2004 to 11 February 2014	1,718,000
Lim Yin Cheng	3.3	12 February 2004	12 February 2004 to 11 February 2014	1,718,000
Lun Pui Kan	3.3	12 February 2004	12 February 2004 to 11 February 2014	1,718,000
Kwan Po Lam Phileas	3.3	12 February 2004	12 February 2004 to 11 February 2014	1,718,000

If the Rights Issue becomes unconditional, the exercise price of and/or the number of Shares comprised in the Outstanding Options may be subject to adjustments.

Save as disclosed above, the Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

There is no arrangement under which future dividends are waived or agreed to be waived.

### 3. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, were as follows:

#### (I) Long positions in shares

##### (a) The Company

Director	Capacity	Number of Shares	Approximate percentage of shareholding <i>(Note 5)</i>		
Mr. Poon	Beneficial owner	84,716,282 <i>(Note 1)</i>	}	144,847,369	35.82%
	Interest of spouse	2,130,882 <i>(Note 2)</i>			
	Interest of controlled corporations	58,000,205 <i>(Note 3)</i>			
Mr. Fung Siu To Clement	Beneficial owner	8,645,859 <i>(Note 4)</i>			2.13%

#### Notes:

- These Shares represents the sum of (a) the 36,516,438 Shares currently held by Mr. Poon or his nominee; (b) the 18,258,219 Rights Shares to be provisionally allotted to Mr. Poon or his nominee in respect of such 36,516,438 Shares which Mr. Poon has undertaken to take up under the Rights Issue; (b) the 29,941,625 Rights Shares underwritten by Mr. Poon pursuant to the Underwriting Agreement assuming all the Outstanding Options are exercised on or before the Record Date.
- These Shares represent the sum of (a) the 1,420,588 Shares currently held by Ms. Wong Mei Ling Suzanne ("Ms. Wong"), the spouse of Mr. Poon; and (b) the 710,294 Rights Shares to be provisionally allotted to Ms. Wong in respect of such 1,420,588 Shares which Ms. Wong has undertaken to take up under the Rights Issue.
- These Shares represent the sum of (a) the 38,666,804 Shares currently held by corporations controlled by Mr. Poon ("Controlled Corporations"); and (b) the 19,333,401 Rights Shares to be provisionally allotted to the Controlled Corporations in respect of such 38,666,804 Shares which the Controlled Corporations have undertaken to take up under the Rights Issue.

4. These Shares represent the sum of (a) the 4,045,906 Shares currently held by Mr. Fung Siu To Clement; (b) the 1,718,000 Shares to be issued to Mr. Fung Siu To Clement upon exercise of all the Outstanding Options currently held by him; and (c) the 2,881,953 Rights Shares to be provisionally allotted to Mr. Fung Siu To Clement (if he exercises on or before the Record Date all the Outstanding Options currently held by him) for which Mr. Fung Siu To Clement has undertaken to subscribe or procure subscribers under the Rights Issue.
5. The percentage of shareholding is calculated on the basis of 404,294,958 Shares in issue immediately after completion of the Rights Issue (assuming all the Outstanding Options attaching thereto subscription rights to subscribe for an aggregate of 14,972,000 Shares are exercised on or before the Record Date).

(b) *Associated corporations*

Director	Associated corporation	Capacity	Number of shares held		Approximate percentage of shareholding
Mr. Poon	Asia Standard International Group Limited (“Asia Standard”)	Beneficial owner	4,492,200	} 2,085,171,912	41.07%
		Interest of controlled corporation	2,080,679,712 (Note 1)		
Mr. Poon	Asia Standard Hotel Group Limited (“AS Hotel”)	Beneficial owner	248,937	} 3,749,397,711	59.44%
		Interest of controlled corporation	3,749,148,774 (Note 1)		
Mr. Poon and Mr. Fung Siu To Clement	Centop Investment Limited (“Centop”)	Interest of controlled corporation	20 (Note 2)		20%
Mr. Poon	Centop	Interest of controlled corporation	80 (Note 3)		80%
Mr. Fung Siu To Clement	Mark Honour Limited	Beneficial owner	9		9%

*Notes:*

1. By virtue of his controlling interest in the Company, Mr. Poon is deemed to be interested in the shares of Asia Standard and AS Hotel held by the Company’s subsidiaries.
2. Centop is owned as to 80% by Asia Standard and 20% by Kingscore Investment Limited (“Kingscore”). Each of Mr. Poon and Mr. Fung Siu To Clement holds 50% interest in Kingscore. By virtue of their interest in Kingscore, each of Mr. Poon and Mr. Fung is deemed to have interest in the 20 shares held by Kingscore and duplicate the interest of the other.
3. By virtue of his controlling interest in the Company, Mr. Poon is deemed to have interest in the 80 shares of Centop held by Asia Standard.

In addition, by virtue of his interest in the Company, Mr. Poon is deemed to be interested in the shares of all the Company’s subsidiaries and associated corporations.

## (II) Long positions in underlying shares

*Interest in share options*

As at the Latest Practicable Date, details of the share options granted to Directors under the share option schemes of the Company and its associated corporations were as follows:

## (a) The Company

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of underlying Shares subject to Outstanding Options</b>
Mr. Fung Siu To Clement	Beneficial owner	1,718,000
Mr. Lim Yin Cheng	Beneficial owner	1,718,000
Mr. Lun Pui Kan	Beneficial owner	1,718,000
Mr. Kwan Po Lam Phileas	Beneficial owner	1,718,000

Options were granted on 12 February 2004 and exercisable from 12 February 2004 to 11 February 2014 at exercise price of HK\$3.3 per Share.

## (b) Associated corporation — Asia Standard

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of underlying shares subject to outstanding options</b>
Mr. Fung Siu To Clement	Beneficial owner	20,000,000
Mr. Poon	Beneficial owner	5,000,000
Mr. Lim Yin Cheng	Beneficial owner	20,000,000
Mr. Lun Pui Kan	Beneficial owner	20,000,000
Mr. Kwan Po Lam Phileas	Beneficial owner	20,000,000

Options were granted on 30 March 2005 and exercisable from 30 March 2005 to 29 March 2015 at exercise price of HK\$0.325 per share.

## (c) Associated corporation — Q9 Technology Holdings Limited (“Q9”)

Name of Director	Capacity	Exercise period	Exercise price <i>HK\$</i>	Number of underlying Shares subject to outstanding options as at the Latest Practicable Date	
				Pre-IPO share option scheme adopted on 5 May 2001 (“Pre-IPO Share Option Scheme”)	Share option scheme adopted on 7 May 2001 (“Post-IPO Share Option Scheme”)
Lim Yin Cheng	Beneficial owner	5 May 2001 to 4 May 2011	0.36	84,480,000	
Fung Siu To Clement	Beneficial owner	5 May 2001 to 4 May 2011	0.36	2,560,000	
Lun Pui Kan	Beneficial owner	5 May 2001 to 4 May 2011	0.36	1,920,000	
		18 May 2001 to 17 May 2011	0.45		3,000,000
Kwan Po Lam Phileas	Beneficial owner	18 May 2001 to 17 May 2011	0.45		1,000,000

The option granted under the Pre-IPO Share Option Scheme may be exercised at any time for the period from 5 May 2001 to 4 May 2011 provided that the options have been vested. As at the Latest Practicable Date, all options have been vested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

#### 4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

##### *Long position in the Shares*

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding
Teddington Holdings Limited ("Teddington") (Notes 1 and 2)	Beneficial owner	24,194,791	5.98% (Note 3)
Dalton Investments LLC	Investment manager	17,083,167	6.71% (Note 4)

##### *Notes:*

1. These Shares represents the sum of (a) the 16,129,861 Shares currently held by Teddington; (b) the 8,064,930 Rights Shares to be provisionally allotted to Teddington in respect of such 16,129,861 Shares which Teddington has undertaken to take up under the Rights Issue.
2. The entire issued share capital of Teddington is owned by Mr. Poon.
3. The percentage of shareholding is calculated on the basis of 404,294,958 Shares in issue immediately after completion of the Rights Issue (assuming all the Outstanding Options attaching thereto subscription rights to subscribe for an aggregate of 14,972,000 Shares are exercised on or before the Record Date).
4. The percentage of shareholding is calculated on the basis of 254,557,972 Shares in issue.



*Long position in the Shares*

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of the Shares</b>	<b>Percentage of shareholding (Note 1)</b>
Tai Fook Securities Group Limited	Interest in controlled corporation	63,639,494	16.67%
Tai Fook (BVI) Limited	Interest in controlled corporation	63,639,494	16.67%
Tai Fook Finance Company Limited	Interest in controlled corporation	63,639,494	16.67%
Tai Fook Securities (Note 2)	Beneficial owner	63,639,494	16.67%

*Notes:*

1. The percentage of shareholding is calculated on the basis of 381,836,958 Shares in issue immediately after completion of the Rights Issue (assuming no Outstanding Options are exercised on or before the Record Date).
2. The 63,639,494 Shares are the Rights Shares which Tai Fook Securities has underwritten in respect of the Rights Issue. Based on corporate substantial shareholder notice filed by Tai Fook Securities Group Limited, Tai Fook Securities is wholly owned by Tai Fook Finance Company Limited which in turn is wholly owned by Tai Fook (BVI) Limited. Tai Fook (BVI) Limited is wholly owned by Tai Fook Securities Group Limited, a company listed on the Main Board of the Stock Exchange.

*Short position in the Shares*

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of the Shares</b>	<b>Percentage of shareholding (Note 1)</b>
Tai Fook Securities Group Limited	Interest in controlled corporation	30,000,000	7.86%
Tai Fook (BVI) Limited	Interest in controlled corporation	30,000,000	7.86%
Tai Fook Finance Company Limited	Interest in controlled corporation	30,000,000	7.86%
Tai Fook Securities (Note 2)	Beneficial owner	30,000,000	7.86%

*Notes:*

1. The percentage of shareholding is calculated on the basis of 381,836,958 Shares in issue immediately after completion of the Rights Issue (assuming no Outstanding Options are exercised on or before the Record Date).
2. Based on corporate substantial shareholder notice filed by Tai Fook Securities Group Limited, Tai Fook Securities is wholly owned by Tai Fook Finance Company Limited which in turn is wholly owned by Tai Fook (BVI) Limited. Tai Fook (BVI) Limited is wholly owned by Tai Fook Securities Group Limited, a company listed on the Main Board of the Stock Exchange.

*Interest in other members of the Group*

<b>Name of non-wholly owned subsidiary of the Company</b>	<b>Name of registered substantial shareholders (other than members of the Group)</b>	<b>Number of Shares held</b>	<b>Percentage of interest</b>
United Resources Associates Limited	Great Oriental Developments Limited	One ordinary share of US\$1	16.66%
Blissful Enterprises Limited	Join Win Resources Limited	Two ordinary shares of US\$1 each	33.33%

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person (not being a Director or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or held any option in respect of such capital.

## 5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

Save as the Underwriting Agreement (Mr. Poon being a party thereto), none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group. As at the Latest Practicable Date, save as the Underwriting Agreement, none of the Directors other than Mr. Poon had any material personal interest in any material contract entered into by Mr. Poon.

None of the Directors has any direct or indirect interests in any assets which have been 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 since 31 March 2005, being the date to which the latest published audited consolidated accounts of the Group were made up.

None of the Directors was or will be given any compensation for loss of office or otherwise in connection with the Underwriting Agreement and/or Whitewash Waiver.

## 6. COMPETING INTERESTS

None of the Directors or any of their respective associates have any interests in any business which may compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling Shareholder).

## 7. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

1. the placing and underwriting agreement dated 2 February 2005 (the “Placing and Underwriting Agreement”) between Asia Orient Company Limited (“AOCL”, a wholly owned subsidiary of the Company) and four other wholly owned subsidiaries of AOCL as vendors (together the “Vendors”), CLSA Limited (“CLSA”) as underwriter and Asia Standard, pursuant to which the Vendors appointed CLSA as the placing agent for the placing of a maximum of 820,000,000 shares of Asia Standard at the placing price of HK\$0.38 per placing share for a commission of 2% per placing share successfully placed;
2. the subscription agreement dated 2 February 2005 between AOCL and Asia Standard, pursuant to which the AOCL subscribed for and agreed to procure the other Vendors to subscribe for the same number of new shares in Asia Standard placed by CLSA under the Placing and Underwriting Agreement at a subscription price of HK\$0.38 per share;
3. the placing and subscription agreement dated 2 March 2005 entered into between Mr. Poon, Teddington Holdings Limited, Full Speed Investments Limited and Heston Holdings Limited as vendors, the Company and Tai Fook Securities as placing agent in relation to the placing through Tai Fook Securities of an aggregate of 34.6 million existing Shares held by the abovementioned vendors at HK\$2.50 per Share to independent placees and the subscription of an aggregate of 34.6 million new Shares by the abovementioned vendors at HK\$2.50 per Share;
4. the Top-Up Subscription Agreement; and
5. the Underwriting Agreement.

## 8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

## 9. EXPERTS AND CONSENTS

The following is the qualification of the experts whose statements have been included in this circular:

Name	Qualification
VC Capital	a licensed corporation to carry out types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities for the purposes of the SFO
PricewaterhouseCoopers (“PwC”)	Certified Public Accountants

VC Capital and PwC have given and have not withdrawn their written consents to the issue of this circular with the inclusion herein of their letters or references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of VC Capital and PwC had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of VC Capital and PwC have any direct or indirect interests in any assets which have been, since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## 10. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (iv) are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## 11. SECRETARY AND QUALIFIED ACCOUNTANT OF THE COMPANY

The secretary of the Company is Ms. Chiu Yuk Ching, ACIS. The qualified accountant of the Company is Mr. Lun Pui Kan, CPA.

## 12. SHAREHOLDINGS AND DEALINGS

- (a) Save for the 80,649,736 Shares held by Mr. Poon and parties acting in concert with him as disclosed in the section headed “Changes in shareholding structure” in the Letter from the Board of this circular and the Outstanding Options attaching thereto subscription rights to subscribe for 1,718,000 Shares held by each of Mr. Fung Siu To Clement and Mr. Lim Yin

Cheng as disclosed in the section headed “3. Disclosure of interests by Directors” in this appendix, none of Mr. Poon and parties acting in concert with him (including any directors of any parties acting in concert with Mr. Poon which are entities) were interested in or owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date. Save as disclosed in the section headed “Dealings of Shares by Mr. Poon and parties acting in concert with him” in the Letter from the Board of this circular, none of Mr. Poon and parties acting in concert with him had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning six months prior to 10 February 2006 (being the date of the Announcement) and ending on the Latest Practicable Date.

- (b) Save as disclosed in the section headed “3. Disclosure of interests by Directors” in this appendix, none of the Directors were interested in any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date. Save as disclosed in the section headed “Dealings of Shares by Mr. Poon and parties acting in concert with him” in the Letter from the Board of this circular, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning six months prior to 10 February 2006 (being the date of the Announcement) and ending on the Latest Practicable Date.
- (c) None of the advisers to the Company as specified in class (2) of the definition of associate (excluding exempt principal traders) in the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning the date of the Announcement and ending on the Latest Practicable Date.
- (d) None of the subsidiaries of the Company and pension funds of the Company or of a subsidiary of the Company owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning the date of the Announcement and ending on the Latest Practicable Date.
- (e) No fund managers (other than exempt fund managers) connected with the Company managed on a discretionary basis any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company which are managed on a discretionary basis during the period beginning the date of the Announcement and ending on the Latest Practicable Date.
- (f) As at the Latest Practicable Date, 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 associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code or Mr. Poon or any person acting in concert with him.

- (g) As at the Latest Practicable Date, save for the Underwriting Agreement, no agreement, arrangement or understanding (including any compensation arrangement) existed between Mr. Poon or any person acting in concert with him and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Underwriting Agreement or the Whitewash Waiver.
- (h) As at the Latest Practicable Date, there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the Underwriting Agreement or the Whitewash Waiver or otherwise connected with the Underwriting Agreement or the Whitewash Waiver.
- (i) As at the Latest Practicable Date, any Rights Shares acquired by Mr. Poon and parties acting in concert with him in pursuance of the Underwriting Agreement were not intended to be transferred, charged or pledged to any other persons.
- (j) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Whitewash Waiver.
- (k) Mr. Poon and parties acting in concert with him will abstain from voting on the ordinary resolution approving the Whitewash Waiver. Save as aforesaid, as at the Latest Practicable Date, none of the Directors had indicated their intention, in respect of their own beneficial shareholdings, if any, to vote for or against the Whitewash Waiver.

### 13. PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to Bye-Law 70 of the Bye-Laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (1) by the Chairman of the meeting; or
- (2) by at least three Shareholders present in person, by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (3) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (4) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

**14. MARKET PRICES**

The table below shows the closing prices on the Stock Exchange of the Shares (i) at the end of each of the six calendar months preceding the date of the Announcement; (ii) on the Last Trading Date; (iii) at the end of each of the calendar months following the date of the Announcement; and (iv) on the Latest Practicable Date:

<b>Date</b>	<b>Closing Price</b> <i>HK\$</i>
31 August 2005	2.60
30 September 2005	2.425
31 October 2005	1.85
30 November 2005	2.00
30 December 2005	2.125
27 January 2006	2.075
7 February 2006 (Last Trading Date)	2.125
28 February 2006	1.9
Latest Practicable Date	1.94

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period commencing six months preceding the date of the Announcement and ending on the Latest Practicable Date were HK\$2.75 per Share on 18 August 2005 and HK\$1.84 per Share on 27 October 2005 respectively.

**15. CORPORATE INFORMATION**

<b>Registered office of the Company</b>	Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda
<b>Head office and principal place of business of the Company in Hong Kong</b>	30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong
	Telephone 2866 3336 Fascimile 2866 3772 Website <a href="http://www.asiaorient.com.hk">http://www.asiaorient.com.hk</a> Email: <a href="mailto:ao_info@asia-standard.com.hk">ao_info@asia-standard.com.hk</a>
<b>Authorised representatives</b>	Mr. Fung Siu To Clement Mr. Lun Pui Kan

<b>Company secretary</b>	Ms. Chiu Yuk Ching
<b>Qualified accountant</b>	Mr. Lun Pui Kan, CPA
<b>Financial adviser to the Company</b>	Tai Fook Capital Limited 25th Floor New World Tower 16-18 Queen's Road Central Hong Kong
<b>Independent financial adviser to the Independent Board Committee and the Independent Shareholders</b>	VC Capital Limited Penthouse 38th Floor The Centrium 60 Wyndham Street, Central Hong Kong
<b>Legal advisers to the Company</b>	<i>(As to Hong Kong law)</i> Stephenson Harwood & Lo 18th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong  <i>(As to Bermuda law)</i> Appleby Spurling Hunter 5511, The Center 99 Queen's Road Central Hong Kong
<b>Legal advisers to the Underwriters</b>	<i>As to Hong Kong laws</i> Chiu & Partners 41st Floor Jardine House 1 Connaught Place Hong Kong
<b>Auditors</b>	PricewaterhouseCoopers Certified Public Accountants 22nd Floor Prince's Building Central, Hong Kong
<b>Principal share registrars and transfer office</b>	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke, Bermuda



<b>Hong Kong branch share registrars and transfer office</b>	Computershare Hong Kong Investor Services Limited Room Nos. 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	Bank of China (Hong Kong) Limited The Hongkong and Shanghai Banking Corporation Limited Hang Seng Bank Limited The Bank of East Asia Limited Chiyu Banking Corporation Limited Liu Chong Hing Bank Limited Bank of Communications Citic Ka Wah Bank Limited Industrial and Commercial Bank of China (Asia) Limited

## 16. EXPENSES

The expenses in connection with the Rights Issue, including financial and legal advisory fees, underwriting commission, printing and translation expenses, are estimated to be approximately HK\$5 million and will be payable by the Company.

## 17. PARTICULARS OF DIRECTORS

(a) Name	Address	Nationality
<i>Executive Directors</i>		
FUNG Siu To Clement	House No.1 Barbecue Garden 17½ Millestone Castle Peak Road New Territories Hong Kong	Canadian
LIM Yin Cheng	Flat B, 6th Floor Monterey Court 47-49 Perkins Road Hong Kong	Canadian
POON Jing	N.T.D.D. 381 Lot 951 Section J New Territories Hong Kong	Canadian

(a) Name	Address	Nationality
LUN Pui Kan	Room 1 15th Floor Block 46 Heng Fa Chuen Hong Kong	Chinese
KWAN Po Lam Phileas	Block C 2nd Floor 173 Argyle Street Kowloon Hong Kong	Chinese
<i>Non-executive Director</i>		
CHAN Sze Hung	8th Floor Asia Standard Tower No. 59-65 Queen's Road Central Hong Kong	British
<i>Independent non-executive Directors</i>		
CHEUNG Kwok Wah Ken	Unit A1 Cypresswaver Villas No.32 Cape Road Chung Hom Kok Hong Kong	Chinese
HUNG Yat Ming	Flat C, 21st Floor Block 1, Ronsdale Garden 25 Tai Hang Drive Hong Kong	Australia
WONG Chi Keung	Flat 20A Melody Court 2C-D Kam Hong Street North Point Hong Kong	Chinese

**(b) Qualifications***Executive Directors***FUNG Siu To Clement**

Aged 57. Chairman of the Company and the listed associated company, Asia Standard. He is also an executive director of the listed associated companies, AS Hotel and Q9. Mr. Fung is a holder of a Bachelor of Applied Science (Civil Engineering) degree. He is a fellow member of the Hong Kong Institute of Engineers. He joined the Group in 1988 and has over 20 years of experience in project management and construction. He is the brother-in-law of Mr. Poon.

**LIM Yin Cheng**

Aged 61. Deputy chairman of the Company and Asia Standard. Deputy chairman and chief executive of AS Hotel, an executive director and the chief executive officer of Q9. Mr. Lim is a holder of Bachelor of Science (Chemical Engineering) and Doctor of Philosophy degrees. He has over 25 years of experience in engineering, project management and administration. He joined the Group in 1992. He is the brother-in-law of Mr. Poon.

**POON Jing**

Aged 51. Managing director and the chief executive of the Company and Asia Standard, chairman of AS Hotel. Mr. Poon is the founder of the Group and is an independent non-executive director of GZI Transport Limited. He is the brother-in-law of Mr. Fung Siu To Clement and Mr. Lim Yin Cheng.

**LUN Pui Kan**

Aged 42. Finance director of the Company and Asia Standard and an executive director of Q9. Mr. Lun has over 15 years of experience in accounting and finance. He is a holder of a Bachelor of Science (Engineering) degree and is an associate member of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and a fellow member of The Association of Chartered Certified Accountants (“ACCA”). He joined the Group in 1994.

**KWAN Po Lam Phileas**

Aged 47. Executive director of the Company, Asia Standard and Q9. Mr. Kwan is a holder of a Bachelor of Business Administration degree. He joined the Group in 1986 and is responsible for property sales and leasing. He has over 20 years of experience in property sales, leasing and real estate management.

*Non-executive Director***CHAN Sze Hung**

Aged 52. Mr. Chan graduated from the University of Hong Kong with a degree in law. He joined a legal firm for approximately four years prior to becoming a principal partner of Chan, Lau & Wai. He has over 20 years of experience in the legal profession. He joined the Group in 1996.

*Independent non-executive Directors***CHEUNG Kwok Wah Ken**

Aged 49. A member of the audit committee of the Company. Mr. Cheung received a Bachelor degree of Civil Laws from University College, Dublin. Mr. Cheung has over 15 years of experience in the finance field. He joined the Group in 1996.

**HUNG Yat Ming**

Aged 53. A member of the audit committee of the Company. Mr. Hung graduated from the University of Hong Kong with a Bachelor degree in Mathematics and obtained a post-graduate diploma in Accountancy from the University of Strathclyde, Scotland. He has over 25 years of experience in audit, accounting and financial management in several firms in Sydney and Hong Kong and was an executive director heading the accounting department of a Hong Kong listed company. He is a member of the Institute of Chartered Accountants of Scotland and HKICPA. He is an independent non-executive director and a member of the audit committee of AS Hotel. He joined the Group in 2004.

**WONG Chi Keung**

Aged 50. A member of the audit committee of the Company. Mr. Wong holds a Master degree in business administration from the University of Adelaide in Australia. He is a fellow member of HKICPA, ACCA and CPA Australia; an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants.

Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited, a company whose shares are listed on the Stock Exchange, for over ten years. He is the managing director of two companies which engaged in corporate consultancy services. He is also an independent non-executive director and a member of the audit committee of Asia Standard, Century City International Holdings Limited, China Special Steel Holdings Company Limited, China Treasure (Greater China) Investments Limited, FU JI Food and Catering Services Holdings Limited, Great Wall Automobile Holding Company Limited, International Entertainment Corporation, PacMOS Technology Holdings Limited, Paliburg

Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of these companies are listed on the Stock Exchange. Mr. Wong has over 29 years of experience in finance, accounting and management. He joined the Group in 2004.

## 18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal office of the Company from the date of this circular up to and including 6 April 2006, being the latest date for acceptance and payment for the Rights Shares (or any adjournment thereof) and also be available at the SGM and the same will be uploaded at the Company's website ([www.asiaorient.com.hk](http://www.asiaorient.com.hk)) and the website of The Securities and Futures Commission of Hong Kong ([www.sfc.hk](http://www.sfc.hk)) until (and including) the date of the SGM:

- (a) the Company's memorandum of association and the Bye-Laws;
- (b) the material contracts referred to in the section headed "Material contracts" in this appendix;
- (c) the written consents issued by VC Capital and Tai Fook Capital Limited;
- (d) the annual reports of the Company for the two years ended 31 March 2005;
- (e) the interim report of the Company for the six months ended 30 September 2005;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 30 to 31 of this circular;
- (g) the letter from VC Capital, the text of which is set out on pages 32 to 53 of this circular; and
- (h) the letter signed by PwC setting out their opinion on the adjustments made on the pro forma financial information of the Group as set out in appendix II to this circular.

## 19. MISCELLANEOUS

- (a) The address of Mr. Poon is N.T.D.D. 381, Lot 951, Section J, New Territories, Hong Kong.
- (b) The principal members of the parties acting in concert with Mr. Poon are Full Speed Investments Limited, Heston Holdings Limited, Teddington Holdings Limited, Ms. Wong Mei Ling Suzanne, Mr. Fung Siu To Clement and Mr. Lim Yin Cheng. The registered office of Full Speed Investments Limited is at P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, the British Virgin Islands and its correspondence address is at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. The directors of Full Speed Investments Limited are Mr. Poon, Mr. Fung Siu To Clement, Mr. Kwan Po Lam, Phileas and Mr. Lun Pui Kan. The registered office of Heston Holdings Limited is at P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, the British Virgin Islands and its correspondence address is at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. The directors of Heston Holdings Limited are Mr. Poon, Mr. Fung Siu To Clement and Mr. Lun Pui Kan. The registered office of Teddington Holdings Limited is at P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, the British Virgin Islands and its correspondence address is at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. The directors of Teddington Holdings Limited are Mr. Fung Siu To Clement, Mr. Poon and Mr. Lun Pui Kan. Full Speed Investments Limited, Heston Holdings Limited and Teddington Holdings Limited are beneficially wholly owned by Mr. Poon. The address of Ms. Wong Mei Ling Suzanne is at N.T.D.D. 381, Lot 951, Section J, New Territories, Hong Kong. The addresses of Mr. Fung Siu To Clement and Mr. Lim Yin Cheng are set out in the section headed “17. Particulars of Directors” in this appendix.
- (c) The correspondence address of Tai Fook Capital Limited is 25th Floor, New World Tower, 16-18 Queen’s Road Central, Hong Kong.
- (d) The correspondence address of VC Capital Limited is Penthouse 38th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.

*This appendix serves as the explanatory statement required to be sent to Shareholders by the Listing Rules in connection with the repurchase by companies with a primary listing on the Stock Exchange of their own securities. The intention of this explanatory statement is to provide Shareholders with all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the proposed New Share Repurchase Mandate to be granted to the Directors, which relates to Shares.*

## **1. FUNDING OF REPURCHASE**

It is envisaged that repurchase will be funded entirely from the Company's available cash flow or working capital facilities which are funds otherwise available for dividend or distribution and thus legally available for such in accordance with the provision of the memorandum of association of the Company ("Memorandum of Association") and Bye-Laws and the laws of Bermuda. There might be a material adverse impact on the working capital or gearing levels of the Company (as compared with the position disclosed in the financial statement for the year ended 31 March 2005) in the event the New Share Repurchase Mandate was exercised in full at any one time. However, the Directors do not propose to exercise the New Share Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

## **2. REASONS FOR REPURCHASE**

Repurchases of securities will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its earnings and/or its net assets per Share.

## **3. EXERCISE OF THE NEW SHARE REPURCHASE MANDATE**

As at the Latest Practicable Date, the issued share capital of the Company comprised 254,557,972 Shares. Subject to the passing of the relevant ordinary resolution approving the New Share Repurchase Mandate and upon completion of the Rights Issue, the Company would be allowed under the New Share Repurchase Mandate to repurchase during the period from the completion of the Rights Issue up to the conclusion of the next annual general meeting or the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws or any relevant law to be held or when revoked or varied by an Ordinary Resolution of the Shareholders in general meeting of the Company, whichever occurs first:

- (i) a maximum of 38,183,695 Shares, assuming that no Outstanding Options are exercised on or before the Record Date and that the total number of issued shares of the Company are increased to 381,836,958 Shares immediately after completion of the Rights Issue; and
- (ii) a maximum of 40,429,495 Shares, assuming that all Outstanding Options to subscribe for an aggregate of 14,972,000 Shares are exercised on or before the Record Date and that the total number of issued shares of the Company are increased to 404,294,958 Shares immediately after completion of the Rights Issue.

#### 4. SHARE PRICE

In each of the previous twelve months before the Latest Practicable Date, the highest and lowest traded prices for the Shares on the Stock Exchange were as follows:

	Traded market price	
	Highest HK\$	Lowest HK\$
<b>2005</b>		
March	2.85	2.35
April	2.525	2.35
May	2.7	2.125
June	2.5	2.25
July	2.55	2.3
August	2.825	2.35
September	2.7	2.3
October	2.5	1.78
November	2.05	1.8
December	2.3	1.97
<b>2006</b>		
January	2.325	2.025
February	2.15	1.7
Latest Practicable Date	2	1.91

#### 5. UNDERTAKING

##### (a) Directors, their associates and connected person

None of the Directors nor, to the best of the knowledge and belief of the Directors, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention, in the event that the proposed New Share Repurchase Mandate is approved by the Shareholders, to sell securities to the Company.

No connected person of the Company (as defined in the Listing Rules) has notified the Company that he/she has a present intention to sell securities to the Company nor has he/she undertaken not to sell any of the securities held by him/her to the Company in the event that the Company is authorized to make purchase of securities.

##### (b) Undertaking of the Directors

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchase pursuant to the proposed resolution in accordance with the Listing Rules and all applicable laws of Bermuda, and in accordance with the memorandum of association of the Company and the Bye-Laws.



**(c) Effect of Takeovers Code**

If as the result of a repurchase of securities, a Shareholder's proportionate interest in the voting rights of the Company increase, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Mr. Poon and parties acting in concert with him were beneficially interested in 80,649,736 Shares, representing approximately 31.7% of the issued share capital of the Company. As referred to in the section headed "Whitewash Waiver" in the Letter from the Board of this circular, the subscription for and underwriting of the Rights Shares under the Rights Issue by Mr. Poon may result in the aggregate shareholding in the Company of Mr. Poon and parties acting in concert with him being increased to approximately 37.8% (assuming no Outstanding Options are exercised on or before the Record Date and that the total number of issued shares of the Company are increased to 381,836,958 Shares immediately after completion of the Rights Issue), or to approximately 38.4% (assuming all the Outstanding Options are exercised in full on or before the Record Date and that the total number of issued shares of the Company are increased to 404,294,958 Shares immediately after completion of the Rights Issue). A formal application has been made by Mr. Poon to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll.

Assuming the full exercise of the power under the New Share Repurchase Mandate after completion of the Rights Issue, the interest of Mr. Poon and parties acting in concert with him in the issued share capital of the Company will be increased to approximately 42.0% (assuming no Outstanding Options are exercised on or before the Record Date and that the total number of issued shares of the Company are increased to 381,836,958 Shares immediately after completion of the Rights Issue), or to approximately 42.7% (assuming all the Outstanding Options are exercised in full on or before the Record Date and that the total number of issued shares of the Company are increased to 404,294,958 Shares immediately after completion of the Rights Issue). Mr. Poon and his concert parties may be required to make a general offer if as a result of repurchase their interest in the Company over 12-month period is increased by 2%. However, the Directors have no present intention to repurchase Shares to such extent. In the event that the New Share Repurchase Mandate is exercised in full, the number of Shares held by the public would not fall below 25%.

**6. SHARE PURCHASE MADE BY THE COMPANY**

No purchases of Shares have been made by the Company during the six months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise).



**ASIA ORIENT HOLDINGS LIMITED**

**(滙漢控股有限公司)\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 214)**

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the special general meeting (the “**SGM**”) of the shareholders (“**Shareholders**”) of Asia Orient Holdings Limited (“**Company**”) will be held at Basement 1, Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong on Tuesday, 21 March 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as Ordinary Resolutions of the Company:

1. “**THAT** subject to the Executive (as defined in a circular (the “**Circular**”) of the Company dated 3 March 2006) granting the Whitewash Waiver (as defined in the Circular) to Mr. Poon (as defined in the Circular) and parties acting in concert with him and the satisfaction of any conditions attached to the Whitewash Waiver imposed by the Executive, the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code (as defined in the Circular) waiving any obligation on the part of Mr. Poon and parties acting in concert with him to make a mandatory offer to Shareholders to acquire Shares (as defined in the Circular) other than those already owned by Mr. Poon and parties acting in concert with him which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of any allotment or issue of Shares pursuant to the fulfillment by Mr. Poon and parties acting in concert with him of the obligations under the Underwriting Agreement (as defined in the Circular) and the Irrevocable Undertakings (as defined in the Underwriting Agreement) be and is hereby approved and that the Directors (as defined in the Circular) be and are hereby authorized to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give effect to any matter relating to or in connection with the Whitewash Waiver.”
2. A. “**THAT** conditional upon completion of the Rights Issue (as defined in the Circular),
  - (a) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with securities of the Company as approved by Shareholders at the AGM (as defined in the Circular) be and is hereby revoked with effect from the date of completion of the Rights Issue (without prejudice to the valid exercise of such general mandate, if any, prior to the completion of the Rights Issue);
  - (b) subject to paragraph 2A(d), the Directors be and are generally and unconditionally authorised to exercise during the Relevant Period (as defined in paragraph 2A(e)) all the powers of the Company to allot, issue or otherwise deal with Shares and securities convertible into Shares or warrants or similar rights to subscribe for Shares and to make or grant offers, agreements and options which might require the exercise of such powers;

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## NOTICE OF THE SGM

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- (c) the approval in paragraph 2A(b) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (d) the aggregate nominal amount of share capital allotted or agreed conditionally, or unconditionally, to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs 2A(b) and (c), otherwise than pursuant to:-
  - (i) a rights issue (as defined in paragraph 2A(e));
  - (ii) the exercise of rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into Shares;
  - (iii) the exercise of subscription or conversion right under the terms of any warrants of the Company or any option granted under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of options to subscribe for or rights to acquire Shares; and
  - (iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Bye-Laws (as defined in the Circular);

shall not exceed 13.10 per cent of the aggregate nominal amount of the share capital of the Company in issue immediately after completion of the Rights Issue and the said approval shall be limited accordingly;

- (e) for the purpose of this Resolution:-

“Relevant Period” means the period immediately after completion of the Rights Issue until whichever is the earliest 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 Bye-Laws of the Company or any applicable laws to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by way of ordinary resolution of the shareholders of the Company in general meeting.

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## NOTICE OF THE SGM

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“rights issue” means the allotment, issue or grant of Shares pursuant to an offer of Shares open for a period fixed by the Board (as defined in the Circular) made to holders of Shares whose names appear 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 exclusions or other arrangements as the Board 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 outside, Hong Kong).”

B. “**THAT** conditional upon completion of the Rights Issue,

- (a) the general mandate granted to the Directors to exercise the powers of the Company to repurchase Shares listed on the Stock Exchange (as defined in the Circular) or any other stock exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong (the “SFC”) and the Stock Exchange for this purpose as approved by Shareholders at the AGM be and is hereby revoked with effect from the date of completion of the Rights Issue (without prejudice to the valid exercise of such general mandate, if any, prior to the completion of the Rights Issue);
- (b) subject to paragraph 2B(c), the Directors be and are generally and unconditionally authorised to exercise during the Relevant Period (as defined in paragraph 2B(d)) all the powers of the Company to repurchase Shares listed on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and recognized by the SFC and the Stock Exchange for this purpose subject to and in accordance with all applicable laws and the requirements of the Listing Rules (as defined in the Circular) or that of any other stock exchange as amended from time to time;
- (c) the aggregate nominal amount of the Shares to be repurchased by the Company shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue immediately after completion of the Rights Issue and approval granted under paragraph 2B(b) of this Resolution shall be limited accordingly;
- (d) for the purpose of this Resolution:-

“Relevant Period” means the period immediately after completion of the Rights Issue until whichever is the earliest 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 Bye-Laws or any applicable laws to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by way of ordinary resolution of the shareholders of the Company in general meeting.”

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## NOTICE OF THE SGM

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- C. “**THAT** conditional upon (i) completion of the Rights Issue; and (ii) Resolutions 2A and 2B in the notice convening this meeting of which this Resolution forms part being passed, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue or otherwise deal with Shares pursuant to Resolution 2A above be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 2B above.”

By Order of the Board  
**Chiu Yuk Ching**  
*Secretary*

Hong Kong, 3 March 2006

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Principal Office in Hong Kong:*

30th Floor  
Asia Orient Tower  
Town Place  
33 Lockhart Road  
Wanchai, Hong Kong

**Notes:**

1. Every Shareholder entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a Shareholder.
2. A form of proxy for use at the SGM is enclosed herewith.
3. Where there are joint registered holders of any Shares, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto, provided that if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons whose name stands first on the register of Shareholders in respect of such Shares shall alone be entitled to vote in respect thereof.
4. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's principal office in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof).

As at the date hereof, the board of directors of the Company comprises Mr. Fung Siu To Clement, Mr. Lim Yin Cheng, Mr. Poon Jing, Mr. Lun Pui Kan, Mr. Kwan Po Lam Phileas, Mr. Chan Sze Hung<sup>+</sup>, Mr. Cheung Kwok Wah Ken<sup>#</sup>, Mr. Hung Yat Ming<sup>#</sup> and Mr. Wong Chi Keung<sup>#</sup>.

+ *Non-executive Director*

# *Independent non-executive Director*

\* *For identification purposes only*