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## IMPORTANT

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**MACAU SUCCESS LIMITED**

**澳門實德有限公司**

*(Incorporated in Hong Kong with limited liability)*

**MAJOR TRANSACTION INVOLVING  
ACQUISITION OF A 55% INTEREST IN A CRUISE SHIP  
AND  
POSSIBLE MAJOR TRANSACTION INVOLVING  
LEASING OF A CRUISE SHIP**

**Financial adviser**



**大福融資有限公司**  
**TAI FOOK CAPITAL LIMITED**

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A notice convening an extraordinary general meeting of Macau Success Limited to be held on Friday, 9th January, 2004 at 4:00 p.m. at Room 1002-05A, 10/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong is set out on pages 85 to 86 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

24th December, 2003

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## DEFINITIONS

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

“Access Success”	Access Success Developments Limited, a company incorporated in the British Virgin Islands with limited liability which is a wholly-owned subsidiary of the Company
“Acquisition”	the proposed acquisition by Access Success of a 55% interest in the Cruise Ship and the Inventories as contemplated under the Agreement
“Aggregate	approximately HK\$94.6 million, being the total of (i) the Consideration of US\$12 million (equivalent to approximately HK\$93.6 million) for the acquisition of the Cruise Ship; and (ii) the consideration of HK\$1 million for the acquisition of the Inventories under the Agreement
“Agreement”	the conditional sale and purchase agreement dated 9th December, 2003 entered into among the Vendor and the Purchasers in respect of the sale and purchase of the Cruise Ship and the Inventories
“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Banking Day(s)”	the day(s) on which banks are open in Hong Kong
“Bareboat Charter”	the formal bareboat charter (the form of which is attached to the Memorandum) to be entered into among the Purchasers and the Cruise Operator upon completion of the Memorandum in relation to the leasing of the Cruise Ship
“Board”	the board of Directors
“Company”	Macau Success Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Agreement in accordance with its terms
“Consideration”	US\$12 million (equivalent to approximately HK\$93.6 million), being the consideration for the acquisition of the Cruise Ship payable by the Purchasers
“Cruise Operator”	Hover Management Limited, a company incorporated in the British Virgin Islands with limited liability which is an Independent Third Party
“Cruise Ship”	Omar II, a cruise ship to be acquired from the Vendor by the Purchasers under the Agreement
“Deposit”	the deposit in the aggregate sum of US\$1.8 million (equivalent to approximately HK\$14.0 million) paid by the Purchasers for the proposed acquisition of the Cruise Ship and the Inventories after the execution of the Agreement

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## DEFINITIONS

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“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened on Friday, 9th January, 2004 at 4:00 p.m. for the purpose of passing the relevant resolution to approve the Acquisition and the leasing of the Cruise Ship and the Inventories in accordance with the respective terms of the Agreement and the Memorandum (including the Bareboat Charter) and the requirements of the Listing Rules
“Fixed Monthly Charter Payment”	a fixed sum of HK\$2.5 million per calendar month payable by the Cruise Operator for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	an independent third party not connected with the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates
“Inventories”	certain inventories on the Cruise Ship (including furniture, fixtures, furnishings, equipment and supplies), the particulars of which are set out in the Agreement
“Latest Practicable Date”	17th December, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“Mantovana”	Mantovana Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is an Independent Third Party
“Memorandum”	the conditional and legally-binding memorandum of agreement dated 9th December, 2003 entered into among the Cruise Operator and the Purchasers in respect of the leasing of the Cruise Ship and the Inventories by the Purchasers to the Cruise Operator
“Notice of Readiness”	a notice to be given by the Vendor to the Purchasers for the delivery of the Cruise Ship when the Cruise Ship is at the place of delivery and in every respect physically or otherwise ready for delivery in accordance with the Agreement
“Purchasers”	Access Success, Summit Global and Mantovana

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## DEFINITIONS

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“Revenues”	all revenues and receipts of every kind derived from operating any business in, on or over part or parts of the Cruise Ship, including, but not limited to (i) income before commissions from rental of rooms, stores, offices, exhibit or sales space of every kind; (ii) food and beverage sale; (iii) telephone, telex, facsimile and other communication charges; (iv) rentals, licence fees, lease, concession fees and other receivables under and pursuant to the sub-letting, leasing and licensing of part or parts of the Cruise Ship including but not limited to the casino activities; and (v) other fees, charges, bills and income
“Sallmanns”	Sallmanns (Far East) Limited, the independent plant and machinery valuers which prepared the Valuation Report
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Summit Global”	Summit Global International Limited, a company incorporated in the British Virgin Islands with limited liability which is an Independent Third Party
“Valuation Report”	the independent valuation report dated 24th December, 2003 prepared by Sallmanns in relation to the valuation of the Cruise Ship and the Inventories as at 10th November, 2003, the text of which is set out in Appendix II to this circular
“Variable Monthly Charter Payment”	15% of the Revenues per calendar month for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter, which percentage may, at the sole discretion of the Purchasers, be adjusted upward to not more than 25% in the event that the Revenues are more than HK\$20 million per calendar month
“Vendor”	Kong Wing Limited, a company incorporated in the British Virgin Islands with limited liability which is an Independent Third Party
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

*Unless otherwise stated, amounts denominated in US\$ have been translated into HK\$ in this circular at a rate of HK\$7.8=US\$1.0. No representation is made that any amounts in US\$ can be or could have been converted at such rate or any other rates or at all.*



**MACAU SUCCESS LIMITED**

**澳門實德有限公司**

*(Incorporated in Hong Kong with limited liability)*

*Executive Directors:*

Mr. Sonny Yeung Hoi Sing

Mr. Chan William

Mr. Lee Siu Cheung

*Registered Office:*

Room 1002-05A, 10/F.

West Tower, Shun Tak Centre

200 Connaught Road Central

Hong Kong

*Independent non-executive Directors:*

Mr. Choi Kin Pui, Russelle

Mr. Luk Ka Yee, Patrick

24th December, 2003

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION INVOLVING  
ACQUISITION OF A 55% INTEREST IN A CRUISE SHIP  
AND  
POSSIBLE MAJOR TRANSACTION  
INVOLVING LEASING OF A CRUISE SHIP**

**INTRODUCTION**

On 9th December, 2003, the Board announced that (i) the conditional Agreement was entered into among Access Success, Summit Global and Mantovana, as purchasers, and the Vendor, as seller, pursuant to which, Access Success, Summit Global and Mantovana would acquire 55%, 30% and 15% interests in the Cruise Ship and the Inventories respectively; and (ii) the conditional and legally-binding Memorandum was entered into among Access Success, Summit Global, Mantovana and the Cruise Operator pursuant to which Access Success, Summit Global and Mantovana conditionally agreed to lease the Cruise Ship and the Inventories to the Cruise Operator upon the terms and conditions contained in the Bareboat Charter (the form of which is attached to the Memorandum) to be executed upon completion of the Memorandum.

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## LETTER FROM THE BOARD

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### THE AGREEMENT

#### Date:

9th December, 2003

#### Parties:

Vendor: Kong Wing Limited, a company incorporated in the British Virgin Islands with limited liability

- Purchasers:
1. Access Success, a wholly-owned subsidiary of the Company
  2. Summit Global, a company incorporated in the British Virgin Islands with limited liability
  3. Mantovana, a company incorporated in the British Virgin Islands with limited liability

Each of the Vendor, Summit Global and Mantovana is an Independent Third Party.

#### Assets to be acquired:

Pursuant to the Agreement, the Vendor has conditionally agreed to sell and Access Success, Summit Global and Mantovana have conditionally agreed to acquire 55%, 30% and 15% interests in the Cruise Ship and the Inventories respectively, upon the terms and subject to the conditions of the Agreement.

#### Consideration:

The Consideration for the Cruise Ship amounted to US\$12 million (equivalent to approximately HK\$93.6 million), of which US\$6.6 million (equivalent to approximately HK\$51.5 million), US\$3.6 million (equivalent to approximately HK\$28.1 million) and US\$1.8 million (equivalent to approximately HK\$14.0 million) should be satisfied by Access Success, Summit Global and Mantovana respectively.

Pursuant to the terms of the Agreement, Access Success, Summit Global and Mantovana have paid deposits of US\$990,000 (equivalent to approximately HK\$7.7 million), US\$540,000 (equivalent to approximately HK\$4.2 million) and US\$270,000 (equivalent to approximately HK\$2.1 million) respectively to a joint bank account under the names of the Vendor and Access Success (for and on behalf of the Purchasers), representing an aggregate deposit of US\$1.8 million (equivalent to approximately HK\$14.0 million).

Subject to the fulfillment of the conditions set out below and upon delivery of the Cruise Ship in accordance with the Agreement, the Deposit will be released to the Vendor and the Purchasers shall pay to the Vendor the remaining Consideration of US\$10.2 million (equivalent to approximately HK\$79.6 million) as to approximately US\$5.61 million (equivalent to approximately HK\$43.8 million) by Access Success, as to approximately US\$3.06 million (equivalent to approximately HK\$23.9 million) by Summit Global and as to approximately US\$1.53 million (equivalent to approximately HK\$11.9 million) by Mantovana.

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## LETTER FROM THE BOARD

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The consideration for the Inventories amounted to HK\$1 million, of which HK\$550,000, HK\$300,000 and HK\$150,000 would be satisfied by Access Success, Summit Global and Mantovana respectively upon delivery of the Cruise Ship in accordance with the Agreement.

The Aggregate Consideration was arrived at after arm's length negotiations among the Purchasers and the Vendor with reference to, amongst other things, the valuation of the Cruise Ship and the Inventories at US\$12.489 million (equivalent to approximately HK\$97.4 million) as disclosed in the Valuation Report as set out in Appendix II to this circular. Based on the Valuation Report, the Aggregate Consideration of approximately HK\$94.6 million represents a discount of approximately 2.9% to the valuations of the Cruise Ship and the Inventories.

As advised by Sallmanns, the valuations on the Cruise Ship and the Inventories were arrived at based on, among others, (i) the cost of reproduction for the replaceable assets; (ii) the current prices for similar used equipment in the second hand market; (iii) accumulated depreciation of the Cruise Ship and the Inventories; and (iv) age, condition, past maintenance as well as present and prospective serviceability on comparison with new units of like kind. For the purpose of arriving at the valuation on the Cruise Ship, Sallmanns has assumed that the remaining useful life of the Cruise Ship is five years. However, Sallmanns considers that it is possible that the remaining useful life of the Cruise Ship can be extended for more than 10 years depending on the usage and the maintenance programme of the Cruise Ship.

The Group will finance the acquisition of the 55% interest in the Cruise Ship and the Inventories, which, in total, amounts to approximately HK\$52.0 million, by its internal resources.

### **Conditions:**

Completion is subject to the fulfillment of the following conditions:

- (a) the passing by the Shareholders of resolution(s) in the EGM approving the Acquisition in accordance with the terms of the Agreement and the requirements of the Listing Rules; and
- (b) if required, the obtaining of all necessary approvals or consents from the relevant governmental or regulatory authorities in Hong Kong and other jurisdictions required by the parties to the Agreement or any of them for the consummation of the transactions contemplated under the Agreement in accordance with the applicable laws and regulations as well as the Listing Rules.

In the event that any of the above conditions is not fulfilled by 5:00 p.m. (Hong Kong time) on 16th January, 2004 (or such other date as may be agreed by the parties to the Agreement in writing), either the Vendor or the Purchasers may by written notice to the other elect to immediately terminate and rescind the Agreement whereupon the Vendor and Access Success (for and on behalf of the Purchasers) shall release the Deposit together with all interest accrued thereon to the Purchasers forthwith. The aforesaid interest will be accrued based on the prevailing market interest rate from time to time applicable to the joint bank account under the names of the Vendor and Access Success in which the Deposit is placed with.



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## LETTER FROM THE BOARD

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### **Completion:**

Subject to the fulfillment of the conditions of the Agreement, Completion shall take place on the third Banking Days after receipt of the Notice of Readiness by the Purchasers from the Vendor, which shall be on or before 30th January, 2004 (or such other date as may be agreed by the parties to the Agreement in writing).

### **THE MEMORANDUM**

#### **Date:**

9th December, 2003

#### **Parties:**

Lessee: Hover Management Limited, which is the Cruise Operator, a company incorporated in the British Virgin Islands with limited liability

Lessors: 1. Access Success  
2. Summit Global  
3. Mantovana

The Cruise Operator is an Independent Third Party and the Directors are not aware of any relationship between the Cruise Operator and the Vendor.

#### **Assets to be leased:**

Pursuant to the Memorandum, the Purchasers have conditionally agreed to lease the Cruise Ship and the Inventories to the Cruise Operator in accordance with the terms of the Bareboat Charter to be executed upon completion of the Memorandum. Pursuant to the Bareboat Charter, the Cruise Operator will lease the Cruise Ship for a period of 36 months commencing from the date of delivery (which will be not later than the date of Completion) of the Cruise Ship by the Purchasers to the Cruise Operator, provided that after the first anniversary of the Bareboat Charter, the Purchasers may give not less than 60 running days' prior written notice to the Cruise Operator to terminate the Bareboat Charter.

#### **Charter payment:**

Pursuant to the Bareboat Charter, the Cruise Operator shall pay to the Purchasers the following for leasing the Cruise Ship and the Inventories during the charter period:

- (i) a fixed sum of HK\$2.5 million per calendar month which shall be payable not later than every 30 running days in advance, the first payment being payable on the date and hour of delivery of the Cruise Ship and the Inventories to the Cruise Operator; and

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## LETTER FROM THE BOARD

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- (ii) 15% of the Revenues per calendar month (which percentage may, at the sole discretion of the Purchasers, be adjusted upward to not more than 25% in the event that the Revenues are more than HK\$20 million per calendar month), which shall be payable not later than 21 running days after the end of each calendar month.

Revenues refer to all revenues and receipts of every kind derived from operating any business in, on or over part or parts of the Cruise Ship by the Cruise Operator, including, but not limited to (i) income before commissions from rental of rooms, stores, offices, exhibit or sales space of every kind; (ii) food and beverage sale; (iii) telephone, telex, facsimile and other communication charges; (iv) rentals, licence fees, lease, concession fees and other receivables under and pursuant to the sub-letting, leasing and licensing of part or parts of the Cruise Ship including but not limited to the casino activities; and (v) other fees, charges, bills and income. Based on the indication from the Cruise Operator (without bases provided by the Cruise Operator), the Directors expect that the Revenues will be ranging from approximately HK\$10 million to HK\$20 million per calendar month.

The Fixed Monthly Charter Payment and Variable Monthly Charter Payment were arrived at after arm's length negotiations between the Purchasers and the Cruise Operator. The Directors were not aware of any available comparable market information which could be used as a reference for arriving at the Fixed Monthly Charter Payment and the Variable Monthly Charter Payment. Based on the understanding of the Directors, the Purchasers and the Cruise Operator were able to mutually agree on the terms of Bareboat Charter as (i) the Purchasers were satisfied with the expected rate of return for the leasing of the Cruise Ship and the Inventories of approximately 50.7% to 69.8% (the details of which are set out under the section headed "Reasons for and benefits of the entering into of the Agreement and the Memorandum (including the Bareboat Charter)" below); and (ii) the Cruise Operator considered that the operation of the Cruise Activities (as defined under the section headed "Information on the Cruise Ship" below) could provide it with a satisfactory return after deducting the Fixed Monthly Charter Payment and the Variable Monthly Charter Payment.

### **Conditions:**

The completion of the Memorandum and the execution of the Bareboat Charter is subject to (i) Completion having taken place in accordance with the terms of the Agreement; and (ii) the passing by the Shareholders at the EGM of resolutions approving the Memorandum (including the Bareboat Charter) and the transactions contemplated thereunder in accordance with the terms of the Memorandum (including the Bareboat Charter) and the requirements of the Listing Rules.

In the event the conditions are not fulfilled by 5:00 p.m. (Hong Kong time) on or before 30th January, 2004 (or such other date as may be agreed by the parties to the Memorandum in writing), either the Purchasers or the Cruise Operator may, by written notice to the other, elect to terminate and rescind the Memorandum whereupon the Memorandum shall be terminated forthwith and no party shall have any liability or claim against the other party (save and except any antecedent breach of the terms of the Memorandum by any party accrued prior to such termination).

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## LETTER FROM THE BOARD

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### **Time for delivery and cancellation:**

Pursuant to the terms of the Bareboat Charter, the Purchasers shall deliver the Cruise Ship to the Cruise Operator not later than 30th January, 2004.

Pursuant to the terms of the Bareboat Charter, if the Cruise Ship is not delivered to the Cruise Operator by 30th January, 2004, the Cruise Operator shall have the option of cancelling the Bareboat Charter by giving the Purchasers a notice of cancellation within 36 running hours after 30th January, 2004, failing which the Bareboat Charter shall remain in full force and effect. If it appears that the delivery of the Cruise Ship will be delayed beyond the cancelling date for the Bareboat Charter, the Purchasers may give notice to the Cruise Operator proposing a new cancellation date for the Bareboat Charter and asking whether it will exercise its option of cancellation in accordance with the terms of the Bareboat Charter. If the Cruise Operator does not then exercise its option of cancelling or accept the new cancellation date for the Bareboat Charter, the cancellation date proposed in the Purchasers' notice shall be substituted for the cancellation date stated in the Bareboat Charter. Cancellation of the Bareboat Charter shall be without prejudice to any claim the Cruise Operator may otherwise have on the Purchasers under the Bareboat Charter.

### **Insurance and repairs:**

Pursuant to the terms of the Bareboat Charter, during the charter period, the Cruise Ship shall be kept insured by the Purchasers at the expense of the Cruise Operator against hull and machinery and war risks under the form of policy or policies attached to the Bareboat Charter. The Purchasers and/or insurers shall not have any right of recovery or subrogation against the Cruise Operator on account of loss of or any damage to the Cruise Ship or her machinery or appurtenances covered by such insurance, or on account of payments made to discharge claims against or liabilities of the Cruise Ship or the Purchasers covered by such insurance.

Pursuant to the terms of the Bareboat Charter, during the charter period, the Cruise Ship shall be kept insured by the Purchasers at the expense of the Cruise Operator against protection and indemnity risks (and any risks against which it is compulsory to insure for the operation of the Cruise Ship) in such form as the Purchasers shall in writing approve which approval shall not be unreasonably withheld.

Pursuant to the terms of the Bareboat Charter, all time used for repairs under the terms of the Bareboat Charter shall be for the account of the Cruise Operator and shall form part of the charter period. The Purchasers shall not be responsible for any expenses as are incident to the use and operation of the Cruise Ship for such time as may be required to make such repairs.

### **Trading Restrictions:**

Pursuant to the terms of the Bareboat Charter, the Cruise Operator shall undertake not to employ the Cruise Ship or suffer her employment in any trade or business which is forbidden by the law of any country to which the Cruise Ship may sail or is otherwise illicit or in carrying illicit or prohibited goods or in any manner whatsoever which may render her liable to condemnation, destruction, seizure or confiscation.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE CRUISE SHIP

The Cruise Ship, currently in the name of “Omar II”, was constructed in Denmark in 1974 and commissioned into service in the same year. The Cruise Ship has a gross tonnage of 9,848 tons, a total of 207 fully air-conditioned passenger cabins. The primary area of operations of the Cruise Ship is in Hong Kong and the high seas near but outside Hong Kong. The Cruise Ship is currently owned and operated by the Vendor, which provides on-board cruise activities, services and amenities (such as restaurants, bars, discos, mahjong, beauty salons, massage facilities, retail shopping, gymnasium facilities and casino activities (together, the “Cruise Activities”)) to the passengers. In order to comply with the laws and regulations in Hong Kong, the casino activities offered to premium players on the Cruise Ship are not carried out within the Hong Kong jurisdiction, but in the high seas beyond the legal restrictions of any countries. The Cruise Ship is moored in Hong Kong where she takes up passengers. After taking up passengers, the Cruise Ship will sail to the high seas near but outside Hong Kong, where the Cruise Activities are carried out. The Directors presently intend to change the name of the Cruise Ship to “Macau Success” after Completion.

Under the Agreement, the Group will only acquire its interest in the Cruise Ship from the Vendor, rather than the business in relation to the operation of the Cruise Activities carried out by the Vendor. As such, the Vendor had not provided the Purchasers with the profit and loss accounts or other related financial information in respect of the operation of the Cruise Activities in the past two calendar years.

### REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE AGREEMENT AND THE MEMORANDUM (INCLUDING THE BAREBOAT CHARTER)

The Group is principally engaged in (i) the retailing of consumer goods targeting at tourists in Hong Kong; and (ii) the provision of construction and related services in Hong Kong.

As stated in the interim report of the Company for the six months ended 31st March 2003 (the “Interim Report”), the construction market in Hong Kong remained sluggish and intense competition exerted pressure on the tender prices of the construction projects in Hong Kong. On the other hand, following the removal of Hong Kong by World Health Organisation from its list of areas with local transmission of the severe acute respiratory syndrome and the implementation of a series of measures to boost the economy by the government of Hong Kong, the local tourism, retail and other related industries in Hong Kong have recovered significantly. Coupled with the execution of the scheme (the “Individual Visit Scheme”) that residents in the Guangdong Province and other cities of the PRC may apply to visit Hong Kong in their individual capacities by the government of the PRC starting from July 2003 as well as the expected opening of Hong Kong Disneyland in 2005, it is envisaged that the prospects of the local tourism, retail and other related industries in Hong Kong will be promising in the future. As such, the Group has already put more of its resources and efforts in the tourist-related retail business. Moreover, in view of the aforementioned business and operating environment of the Group as well as the Group’s consecutive operating losses in the past few years, as stated in the Interim Report, the Directors consider that the Group should explore new business and investment opportunities with good potential in order to expand its scope of operation and provide new sources of revenue to the Group.

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## LETTER FROM THE BOARD

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As stated in the announcement issued by the Company dated 3rd November, 2003, the Directors have identified tourism and retail related businesses in Hong Kong as possible investment opportunities of the Group after taking into account the fact that (i) such businesses are in line with the Group's existing retail business; and (ii) the expertise and knowledge of the Group on the Hong Kong retail market could be leveraged by the Group to identify and/or manage such businesses. Among various tourism and retail related businesses, the Directors consider that the acquisition of a 55% interest in the Cruise Ship and the Inventories for leasing purpose is a good investment opportunity in terms of the rate of return on the investment in the Cruise Ship and the Inventories of approximately 50.7% to 69.8%. The Directors consider that the leasing of the Cruise Ship and the Inventories is a business that relates to the tourism and retail industry in Hong Kong since (i) there are retail shops in the Cruise Ship; (ii) there are various kind of Cruise Activities for the tourists; (iii) the Revenues are directly affected by the business environment of the tourism and retail industries in Hong Kong; and (iv) the charter payment for the leasing of the Cruise Ship and the Inventories, in particular, the Variable Monthly Charter Payment, is derived based on the Revenues per calendar month and is accordingly affected by the business environment of the tourism and retail industries in Hong Kong.

Since the Purchasers currently do not have relevant experience and expertise in operating a cruise ship, the Purchasers will not operate and manage the Cruise Ship immediately following Completion but will lease the Cruise Ship to the Cruise Operator in accordance with the terms of the Bareboat Charter. Therefore, immediately following Completion, the Cruise Operator will operate all the Cruise Activities and bear all the related operating costs and expenses.

The Directors are of the view that the terms of the Agreement, the Memorandum (including the Bareboat Charter) are fair and reasonable and in the interests of the Group and the Shareholders as a whole. The Directors consider that the entering into of the Agreement, the Memorandum and the Bareboat Charter are in line with the Group's mission of enhancing the value of its investments and seeking opportunities for its synergistic growth. Moreover, through the leasing arrangement of the Cruise Ship and the Inventories under the Bareboat Charter, it can expand the scope of operations of the Group and provide a new and stable source of revenue to the Group, which is beneficial to the Group and the Shareholders as a whole.

As mentioned above, the Directors expect that the Revenues will be ranging from approximately HK\$10 million to HK\$20 million per calendar month. In the event that the Revenues are HK\$10 million per calendar month, the annual aggregate charter payment (including the Fixed Monthly Charter Payment and the Variable Monthly Charter Payment) for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter will be approximately HK\$48 million (of which approximately HK\$26.4 million will be attributable to the Group), which will provide a rate of return on the investment in the Cruise Ship and the Inventories of approximately 50.7% (being the ratio of the aforesaid annual aggregate charter payment of HK\$48 million to the Aggregate Consideration of HK\$94.6 million) to the Group. In the event that the Revenues are HK\$20 million per calendar month, the annual aggregate charter payment (including the Fixed Monthly Charter Payment and the Variable Monthly Charter Payment) for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter will be approximately HK\$66 million (of which approximately HK\$36.3 million will be attributable to the Group), which will provide a rate of return on the investment in the Cruise Ship and the Inventories of approximately 69.8% (being the ratio of the aforesaid annual aggregate charter payment of HK\$66 million to the Aggregate Consideration of HK\$94.6 million) to the Group. However, the Revenues may or may not be within the range of approximately HK\$10 million to HK\$20 million per calendar month. Nevertheless, even merely based on

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## LETTER FROM THE BOARD

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the Fixed Charter Monthly Payment, the annual aggregate charter payment for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter will be approximately HK\$30 million, representing a rate of return on the investment in the Cruise Ship and the Inventories of approximately 31.7% (being the ratio of the aforesaid annual aggregate charter payment of HK\$30 million to the Aggregate Consideration of HK\$94.6 million) to the Group.

Based on the above, it is expected that the annual aggregate charter payment for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter attributable to the Group will be ranging from approximately HK\$26.4 million to HK\$36.3 million, which will represent (i) approximately 8.7% to 12.0% of the audited consolidated turnover of the Group for the year ended 30th September, 2002 amounting to approximately HK\$302.3 million; and (ii) approximately 26.1% to 35.9% of the annualized unaudited consolidated turnover of the Group for the six months ended 31 March 2003 amounting to approximately HK\$101.2 million. In addition, it is expected that the charter payments for the leasing of the Cruise Ship and the Inventories will strengthen the net assets base of the Group.

The independent non-executive Directors have been informed of the principal terms of the Agreement and the Memorandum (including the Bareboat Charter) and have not expressed any concerns on such terms.

### **IMPLICATIONS OF THE LAWS OF HONG KONG AND THE LISTING RULES IN RESPECT OF THE CRUISE SHIP**

The operation of casino activities on the Cruise Ship is currently carried out and will be carried out in the high seas near but outside Hong Kong, which are beyond the legal restrictions of Hong Kong or any other countries. Based on the Hong Kong legal opinion obtained by the Company, the Directors consider that none of the Agreement, the Memorandum, the Bareboat Charter or the operation of casino activities on the Cruise Ship to be carried out in the high seas will constitute unlawful activities under the laws of Hong Kong, including the Gambling Ordinance (Chapter 148 of the Laws of Hong Kong).

As mentioned above, pursuant to the terms of the Bareboat Charter, the Cruise Operator shall undertake not to employ the Cruise Ship or suffer her employment in any trade or business which is forbidden by the law of any country to which the Cruise Ship may sail. As such, the Directors confirm that the Company will comply with and will use their best endeavour to procure the Cruise Operator to carry on the casino activities in compliance with all relevant laws and regulations in Hong Kong that are in effect from time to time. In the event the Cruise Operator fails to carry on the casino activities in compliance with all relevant laws and regulations in Hong Kong that are in effect from time to time, the Purchasers would terminate the Bareboat Charter and seek for another lessee of the Cruise Ship. **Shareholders should be aware that under the guidelines issued by the Stock Exchange in relation to “Gambling activities undertaken by listing applicants and/or listed issuers”, should the Company be in breach of any laws or regulations of Hong Kong, the Stock Exchange may suspend or cancel the listing of the Shares on the Stock Exchange.**

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## LETTER FROM THE BOARD

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### GENERAL

The unaudited proforma adjusted consolidated net tangible asset value of the Group as at the Latest Practicable Date was approximately HK\$60.3 million, being the aggregate amount of (i) the unaudited proforma adjusted consolidated net tangible asset value of the Group of approximately HK\$18.9 million as stated in the circular of the Company dated 2nd July, 2003; and (ii) the net proceeds of approximately HK\$41.4 million raised from the placing of certain new Shares in November 2003.

The Acquisition constitutes a major transaction for the Company under the Listing Rules and accordingly is subject to the approval of the Shareholders at the EGM. In addition, the Directors expect that the Revenues will be ranging from approximately HK\$10 million to HK\$20 million per calendar month. In the event that the Revenues are HK\$10 million per calendar month, the annual aggregate charter payment (including the Fixed Monthly Charter Payment and the Variable Monthly Charter Payment) for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter attributable to the Group will amount to approximately HK\$26.4 million, representing 43.8% of the aforesaid unaudited proforma adjusted consolidated net tangible asset value of the Group. In the event that the Revenues are HK\$20 million per calendar month, the annual aggregate charter payment (including the Fixed Monthly Charter Payment and the Variable Monthly Charter Payment) for the leasing of the Cruise Ship and the Inventories under the Bareboat Charter attributable to the Group will amount to approximately HK\$36.3 million, representing 60.2% of the aforesaid unaudited proforma adjusted consolidated net tangible asset value of the Group. As such, the leasing of the Cruise Ship and the Inventories under the Bareboat Charter may constitute a major transaction for the Company under the Listing Rules and accordingly is also subject to the approval of the Shareholders at the EGM.

No Shareholders have any other material interest in the Agreement and the Memorandum (including the Bareboat Charter), save for their interests in such agreements through their respective shareholdings in the Company. As such, no Shareholders are required to abstain from voting at the EGM under the Listing Rules. Each of Silver Rich Macau Development Limited (which is interested in approximately 42.7% of the existing issued share capital of the Company), Spring Wise Investments Limited (which is interested in approximately 18.3% of the existing issued share capital of the Company) and Leader Assets Limited (which is interested in approximately 4.7% of the existing issued share capital of the Company) has undertaken to the Company that each of them will vote in favour of the resolution approving the Agreement, the Memorandum (including the Bareboat Charter) and the transactions respectively contemplated thereunder at the EGM.

### THE EGM

Set out on pages 85 to 86 of this circular is a notice convening the EGM to be held on Friday, 9th January, 2004 at 4:00 p.m. at Room 1002-05A, 10/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong at which an ordinary resolution will be proposed to consider and, if thought fit, to approve the Agreement, the Memorandum (including the Bareboat Charter) and the transactions respectively contemplated thereunder at the EGM.

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## LETTER FROM THE BOARD

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A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### **RECOMMENDATION**

Having considered the reasons set out herein, the Directors consider that the terms of the Agreement and the Memorandum (including the Bareboat Charter) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and the Directors therefore recommend the Shareholders to vote in favour of the ordinary resolution in relation thereto.

### **ADDITIONAL INFORMATION**

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

Yours faithfully,  
By Order of the Board  
**Agnes N.Y. Chiu**  
*Company Secretary*



## I. SUMMARY OF AUDITED FINANCIAL STATEMENTS

## RESULTS

	Year ended 30th September, 2002 <i>HK\$'000</i> (audited)	Fifteen months ended 30th September, 2001 <i>HK\$'000</i> (audited)	Year ended 30th June, 2000 <i>HK\$'000</i> (audited)
Turnover	<u>302,263</u>	<u>441,827</u>	<u>634,427</u>
Loss before taxation	(115,715)	(326,004)	(178,912)
Taxation	<u>133</u>	<u>(3,548)</u>	<u>5,787</u>
Loss after taxation	(115,582)	(329,552)	(173,125)
Minority interests	<u>175</u>	<u>301</u>	<u>–</u>
Net loss attributable to shareholders	<u>(115,407)</u>	<u>(329,251)</u>	<u>(173,125)</u>
Loss per share			
– basic	<u>(7.7) cents</u>	<u>(31.7) cents</u>	<u>(23.8) cents</u>
– diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Dividend per share	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

## ASSETS AND LIABILITIES

	30th September, 2002 <i>HK\$'000</i> (audited) (restated)	2001 <i>HK\$'000</i> (audited)	30th June, 2000 <i>HK\$'000</i> (audited)
Total assets	72,668	371,933	650,604
Total liabilities	(166,611)	(327,590)	(418,532)
Minority interests	<u>(1,261)</u>	<u>–</u>	<u>–</u>
Net (liabilities) assets	<u>(95,204)</u>	<u>44,343</u>	<u>232,072</u>

## II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated results of the Group for the fifteen months ended 30th September, 2001 and the year ended 30th September, 2002 and the audited consolidated balance sheets of the Group as at 30th September, 2001 and 30th September, 2002, together with the relevant notes as extracted from the audited financial statements of the Company for the year ended 30th September, 2002:

**Consolidated Income Statement**

*For the year ended 30th September, 2002*

		Continuing Operations		Discontinuing Operations		Consolidated	
		Year ended 30th September, 2002	Period from 1st July, 2000 to 30th September, 2001	Year ended 30th September, 2002	Period from 1st July, 2000 to 30th September, 2001	Year ended 30th September, 2002	Period from 1st July, 2000 to 30th September, 2001
	Note	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)
<b>Turnover</b>	5	35,992	6,396	266,271	435,431	302,263	441,827
Cost of sales		(31,028)	(7,042)	(259,043)	(379,174)	(290,071)	(386,216)
Gross profit		4,964	(646)	7,228	56,257	12,192	55,611
Gain on disposal of discontinuing operations	7,11	-	-	44,551	-	44,551	-
Other revenue	5	2,504	3,445	3,239	10,039	5,743	13,484
Administrative expenses		7,468	2,799	55,018	66,296	62,486	69,095
Other operating expenses		(7,823)	(9,209)	(30,270)	(45,591)	(38,093)	(54,800)
Staff costs	6	(69,522)	(232,655)	(32,035)	(60,079)	(101,557)	(292,734)
Staff costs	6	(3,287)	(4,672)	(21,387)	(34,520)	(24,674)	(39,192)
<b>Loss from operations</b>	7	(73,164)	(243,737)	(28,674)	(73,894)	(101,838)	(317,631)
Finance costs	8	(3,320)	(2,843)	(9,272)	(6,954)	(12,592)	(9,797)
Share of results of associated company		(76,484)	(246,580)	(37,946)	(80,848)	(114,430)	(327,428)
		-	-	(1,285)	1,424	(1,285)	1,424
<b>Loss before taxation</b>		(76,484)	(246,580)	(39,231)	(79,424)	(115,715)	(326,004)
Taxation	9	-	-	133	(3,548)	133	(3,548)
Loss after taxation		(76,484)	(246,580)	(39,098)	(82,972)	(115,582)	(329,552)
Minority interests		175	301	-	-	175	301
<b>Loss for the year/period</b>	28	<u>(76,309)</u>	<u>(246,279)</u>	<u>(39,098)</u>	<u>(82,972)</u>	<u>(115,407)</u>	<u>(329,251)</u>
Loss per share	10						
- Basic						<u>(7.7) cents</u>	<u>(31.7) cents</u>
- Diluted						<u>N/A</u>	<u>N/A</u>

**Balance Sheet**

At 30th September, 2002

	Note	Group		Company	
		30th September, 2002 HK\$'000 (audited)	30th September, 2001 HK\$'000 (audited)	30th September, 2002 HK\$'000 (audited)	30th September, 2001 HK\$'000 (audited)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	12	6,072	121,778	11	100
Subsidiary companies	13	—	—	—	141,297
Associated companies	14	—	10,404	—	20
Long term investments	15	—	64,124	—	37,979
Long term receivables	16	—	5,397	—	—
Other asset		—	177	—	—
		6,072	201,880	11	179,396
<b>Current assets</b>					
Stocks	17	4,925	21,863	—	—
Contracts in progress	18	3,093	32,400	—	—
Debtors, deposits and prepayments	19	46,755	87,402	32,472	231
Short term investments	20	230	7,150	—	—
Cash and bank balances	21	4,774	21,238	229	499
		59,777	170,053	32,701	730
<b>Current liabilities</b>					
Loans and other obligations	22	143	5,359	—	—
Creditors and accrued charges	23	47,752	302,997	12,197	48,280
Taxation		516	951	—	—
		48,411	309,307	12,197	48,280
<b>Net current assets (liabilities)</b>		11,366	(139,254)	20,504	(47,550)
<b>Total assets less current liabilities</b>		17,438	62,626	20,515	131,846
<b>Non-current liabilities</b>					
Bank loans and other borrowings	24	118,104	—	106,163	—
Finance lease obligations	25	96	2,764	—	—
Deferred taxation	26	—	15,519	—	—
		118,200	18,283	106,163	—
Minority Interest		1,261	—	—	—
<b>NET (LIABILITIES) ASSETS</b>		(102,023)	44,343	(85,648)	131,846

		Group		Company	
		30th September, 2002	30th September, 2001	30th September, 2002	30th September, 2001
	<i>Note</i>	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
<b>CAPITAL AND RESERVES</b>					
Issued capital	27	596,257	596,257	596,257	596,257
Accumulated losses	28	(991,510)	(876,103)	(981,954)	(764,460)
Reserves	29	293,230	324,189	300,049	300,049
		<u>(102,023)</u>	<u>44,343</u>	<u>(85,648)</u>	<u>131,846</u>

**Consolidated Cash Flow Statement***For the year ended 30th September, 2002*

	<b>Year ended 30th September, 2002</b>	<b>Period from 1st July, 2000 to 30th September, 2001</b>
<i>Note</i>	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	277,616	531,468
Cash paid to suppliers and employees	(243,420)	(568,253)
	<hr/>	<hr/>
Cash generated from operations	34,196	(36,785)
Interest paid	(4,781)	(9,797)
Overseas tax paid	(816)	(2,492)
Others	6,008	10,167
	<hr/>	<hr/>
Net cash generated from (used in) operating activities	34,607	(38,907)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(3,564)	(7,344)
Proceeds from disposals of property, plant and equipment	3,824	2,966
Interest received	543	4,554
Purchase of investments	–	(114,145)
Collection from long term receivables	5,397	26,621
Repayments from associated companies	–	18,868
Acquisition of subsidiary companies	30(a) 4,346	(2,707)
Disposal of subsidiary group of companies	30(b) (8,196)	–
	<hr/>	<hr/>
Net cash generated from (used in) investing activities	2,350	(71,187)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of ordinary share capital	–	49,689
Other advances	–	47,632
Capital element of finance lease rental payments	(4,672)	(4,922)
Repayment of amounts borrowed	(48,749)	(20,159)
Release (increase) of fixed deposits pledged to financial institutions	6,631	(3,593)
	<hr/>	<hr/>
Net cash (used in) generated from financing activities	(46,790)	68,647
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(9,833)	(41,447)
Cash and cash equivalents at beginning of year	14,607	51,515
Effects of changes in foreign exchange rates, net	–	4,539
	<hr/>	<hr/>
Cash and cash equivalents at end of year	31 4,774	14,607
	<hr/> <hr/>	<hr/> <hr/>

**Consolidated Statement of Changes in Equity***For the year ended 30th September, 2002*

		<b>Year ended 30th September, 2002</b>	<b>Period from 1st July, 2000 to 30th September, 2001</b>
	<i>Note</i>	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Opening balance – Total equity		44,343	232,072
<b>Net gains (losses) not recognised in the income statement</b>			
Capital reserve on acquisition of an associated company	29	(6,819)	—
Realisation of capital reserve on disposal of subsidiary company	29	11,933	—
Exchange differences on translation of the financial statements of foreign entities	29	—	(1,159)
		5,114	(1,159)
Loss for the year/period	28	(115,407)	(329,251)
Realisation of investment revaluation reserve on disposal of subsidiary company	29	12,192	—
Realisation of asset revaluation reserve on disposal of subsidiary company	29	(15,485)	—
Realisation of exchange fluctuation reserve on liquidation of a subsidiary company	29	—	27,992
Realisation of exchange fluctuation reserve on disposal of subsidiary company	29	(32,780)	—
Bonus share issue from share premium account	29	—	(149,064)
Issue of share capital	27	—	263,753
Closing balance – Total equity		<u>(102,023)</u>	<u>44,343</u>

**Notes to the Financial Statements**

*For the year ended 30th September, 2002*

**1. CORPORATE INFORMATION**

The Group comprises China Development Corporation Limited (“the Company”) and its subsidiary companies. The Company was incorporated under the laws of Hong Kong on 29th September, 1987 and is listed on the Stock Exchange of Hong Kong Limited.

The principal activity of the Company is that of an investment holding company. The principal activities of subsidiary companies are set out in note 13 to the financial statements.

**2. FUNDAMENTAL ACCOUNTING CONCEPTS**

The financial statements have been prepared on a going concern basis. The Company and the Group incurred a net loss of HK\$217,494,000 and HK\$115,407,000 respectively for the year ended 30th September, 2002; and as at 30th September, 2002 the Company’s total liabilities exceeded its total assets by HK\$85,648,000 while the Group’s total liabilities exceeded its total assets by HK\$102,023,000. The ability of the Company and the Group to continue as a going concern will depend upon future funding being available.

**3. PRINCIPAL ACCOUNTING POLICIES****a) Basis of preparation**

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong, and comply with statements of standard accounting practice (“SSAP”) issued by the Hong Kong Society of Accountants (“HKSA”), the disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention.

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by HKSA. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies and has affected the amounts reported for the current or prior periods. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

**b) Basis of consolidation**

The accounting period of the Company and its subsidiary companies in the Group ends on 30th September and the consolidated financial statements include the financial statements of the Company and its subsidiary companies, together with the Group's share of the results of its associated companies for the year ended 30th September, 2002.

The results of subsidiary and associated companies acquired or disposed of during the financial year are included in or excluded from the Group financial statements from the effective dates of acquisition or disposal as applicable. All material intra-group transactions and balances are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

**c) Subsidiary companies**

A subsidiary company is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

**d) Associated companies**

An associated company is an enterprise, not being a subsidiary nor a joint venture, in which the Group has a substantial long-term interest in the equity voting rights and over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of associated companies. The Group's interests in associated companies are included in the consolidated balance sheet at the Group's share of net assets using the equity method of accounting less any provision for diminutions in value other than those considered to be temporary in nature deemed necessary by the directors.

When the Group transacts with its associated companies, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associated company, except where unrealised losses provide evidence of an impairment of the asset transferred.



**e) Goodwill**

The difference between the purchase consideration and the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiary/associated companies represents goodwill or negative goodwill arising on acquisition as appropriate.

Goodwill/negative goodwill on acquisition of subsidiary/associated companies occurring on or after 1st January, 2001 is included as separate assets and is amortised over its estimated useful life in accordance with the provisions of the new SSAP 30 "Business Combinations". No retrospective adjustment to the goodwill/negative goodwill written off against/taken directly to reserves is required for acquisitions occurring on or before 1st January, 2001.

**f) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. Overhauling expenses to extend the useful lives of old assets are, therefore, capitalised and depreciated over the period of the extended useful lives.

Changes in the values of property, plant and equipment are dealt with as movements in the assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit on an individual asset basis, the excess of the deficit is charged to the consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as movement in reserves.

Depreciation is provided to write off the cost or valuation of each asset over its estimated useful life on a straight-line basis at the following annual rates:

Buildings on freehold land	5%
Leasehold land and buildings	Over the term of the lease
Vessels, plant and machinery	10% - 33 $\frac{1}{3}$ %
Furniture and fittings, office equipment motor vehicles and computer software	10% - 33 $\frac{1}{3}$ %

No depreciation is charged on freehold land.

The gain or loss arising from the disposal or retirement of the asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the income statement.

**g) Revenue recognition**

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

- (i) revenue from construction contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where a profitable outcome can be prudently foreseen and is measured by reference to the production of costs incurred for work performed to the balance sheet date as compared to the estimated total costs to completion. Anticipated losses on contracts are fully provided when identified.
- (ii) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (iii) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably.
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**h) Leases***(i) Finance leases*

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long term liabilities. The finance charges are charged to the consolidated income statement over the lease periods.

Assets held under finance leases are included in fixed assets and amortized over the shorter of the lease terms and the useful lives of the assets.

(ii) *Hire purchase contracts*

Leases that transfer substantially all the rewards and risks of ownership of assets to the company, together with a right to acquire legal title of assets, are accounted for as hire purchase contracts. Assets held under hire purchase contracts and the related contracted obligations are recorded in the balance sheet at the fair value of the hire purchased assets at the inception of the contracts. The amounts by which the hire purchase payments exceed the recorded contracted obligations are treated as hire purchase charges in the income statement which are amortized over each lease term to give a constant rate of charge on the remaining balance of the obligation. Assets held under hire purchase contracts are included in fixed assets and amortized over the useful lives of the assets.

(iii) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

**i) Investments**

(i) *Long term investments*

Investments in non-trading unlisted equity securities intended to be held on a long term basis are stated at their estimated fair values on an individual investment basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

(ii) *Short term investments*

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

**j) Stocks**

Stocks are valued at the lower of cost and net realizable value. Cost includes cost of purchase of materials computed using the first-in, first-out formula, and in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date less the estimated costs of completion and the estimated costs necessary to make the sale.

**k) Deferred taxation**

Deferred taxation is provided at the current tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

**l) Translation of foreign currencies**

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. Long term intercompany balances due from subsidiaries are deemed to form part of the equity. The resulting translation differences are included in the exchange fluctuation reserve.

**m) Related parties**

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

**n) Provision for dry-docking expenses**

Dry-docking expenses are provided for annually based on an estimation of expenses to be incurred once in every two to five years, and are charged as operating expenses in each of the years preceding the next dry-docking date.

**o) Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the total value of work certified to date to the estimated total contract value for each contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

**p) Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amounts of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

**q) Retirement benefits scheme costs**

The Group operates a defined contribution retirement scheme for its employees. The assets of the defined contribution retirement schemes are held separately from the Group's assets and are administered by independent trustees.

Contributions to the defined contribution schemes are made by either the Group only or by both the Group and the related employees at rates based on certain per cent of the employees' basic salaries.

**r) Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

#### **4. SEGMENTAL INFORMATION**

SSAP 26 was adopted during the year. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers:

- (a) investment in construction, equipment rental and services income;
- (b) investment in trading business;
- (c) investment in retail business;
- (d) investment in internet business; and
- (e) income derived from investment holding including listed securities trading.

**(a) Business segments**

The following tables present revenue, profit and loss and certain asset, liability and expenditure information for the Group's business segments.

**Group****30th September, 2002**

	Continuing operations					Discontinuing operations			
	Construction, equipment rental and services income HK\$'000	Trading income HK\$'000	Retail business HK\$'000	Internet business HK\$'000	Investment holding HK\$'000	Construction, equipment rental and services income HK\$'000	Trading income HK\$'000	Investment holding HK\$'000	Con- solidated HK\$'000
Turnover	11,215	—	21,566	—	3,211	253,446	12,629	196	302,263
(Loss) Profit from operations	38	—	(536)	(307)	(72,358)	(29,424)	(3,319)	4,068	(101,838)
Finance costs	(12)	—	—	—	(3,308)	(9,070)	(202)	—	(12,592)
Share of loss of an associate	—	—	—	—	—	—	—	(1,285)	(1,285)
Loss before tax									(115,715)
Tax	—	—	—	—	—	133	—	—	133
Loss before minority interests									(115,582)
Minority interests	—	—	175	—	—	—	—	—	175
Net loss from ordinary activities attributable to shareholders									<u>(115,407)</u>
Segment assets	23,401	—	9,533	—	32,911	—	—	—	65,845
Segment liabilities	21,522	—	6,062	3,171	135,848	—	—	—	166,603
Other segment information:									
Depreciation	55	—	289	—	283	21,553	—	—	22,180
Amortisation of goodwill	415	—	343	—	—	—	—	—	758
Provision for permanent diminution in value of investments	—	—	—	38,000	15,000	—	—	—	53,000
Capital expenditure	723	—	453	—	367	2,465	—	—	4,008
Loss on revaluation of listed securities	—	—	—	—	4,889	—	—	—	4,889
Provision for foreseeable losses on contracts in progress	—	—	—	—	—	15,796	—	—	15,796
Provision for stock obsolescence	—	—	—	—	—	3,029	—	—	3,029
Provision for doubtful recovery of amount due from an associate	—	—	—	—	—	7,588	—	—	7,588

## Group

30th September, 2001

	Continuing operations					Discontinuing operations			
	Construction, equipment rental and services income <i>HK\$'000</i>	Trading income <i>HK\$'000</i>	Retail business <i>HK\$'000</i>	Internet business <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Construction, equipment rental and services income <i>HK\$'000</i>	Trading income <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Con- solidated <i>HK\$'000</i>
Turnover	—	133	—	333	5,930	423,963	11,468	—	441,827
(Loss) Profit from operations	—	—	—	(71,169)	(94,693)	(22,528)	2,919	(132,160)	(317,631)
Finance costs	—	—	—	—	(2,843)	(1,407)	—	(5,547)	(9,797)
Share of profit of an associate	—	—	—	—	—	—	—	1,424	1,424
Loss before tax									(326,004)
Tax	—	—	—	—	—	(3,548)	—	—	(3,548)
Loss before minority interests									(329,552)
Minority interests	—	—	—	301	—	—	—	—	301
Net loss from ordinary activities attributable to shareholders									<u>(329,251)</u>
Segment assets	—	—	—	307	61,292	276,445	—	33,889	371,933
Segment liabilities	—	—	—	3,171	57,099	267,231	—	89	327,590
Other segment information:									
Depreciation	—	—	—	511	145	32,068	—	—	32,724
Amortisation of goodwill	—	—	—	67,225	—	—	—	—	67,225
Provision for permanent diminution in value of investments	—	—	—	—	38,980	—	—	—	38,980
Provision for diminution in value in other investments	—	—	—	—	33,572	—	—	—	33,572
Provision for doubtful recovery of trade debtors	—	—	—	—	432	23,191	—	—	23,623
Provision for doubtful debts	—	—	—	—	16,428	—	—	—	16,428
Realisation of exchange fluctuation reserve on liquidation of a subsidiary company	—	—	—	—	27,992	—	—	—	27,992
Capital expenditure	—	—	—	—	339	10,540	—	—	10,879
Provision for foreseeable losses on contracts in progress	—	—	—	—	—	79,927	—	—	79,927
Provision for stock obsolescence	—	—	—	—	—	1,104	—	—	1,104



**(b) Geographical segments**

The following tables present revenue, profit and loss and certain asset and expenditure information for the Group's geographical segments.

**30th September, 2002**

	Continuing operations	Discontinuing operations				Consolidated <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	Singapore <i>HK\$'000</i>	Malaysia <i>HK\$'000</i>	Mynamar <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	
Segment revenue:						
Turnover	35,992	233,559	31,805	785	122	302,263
Segment results	(73,164)	(28,379)	686	(1,005)	24	(101,838)
Segment assets	65,849	—	—	—	—	65,849
Capital expenditure	1,543	2,233	134	19	79	4,008

**30th September, 2001**

Segment revenue:						
Turnover	6,396	433,184	—	2,101	146	441,827
Segment results	(243,737)	(63,000)	(3,116)	(7,807)	29	(317,631)
Segment assets	61,710	295,754	5,160	6,296	3,013	371,933
Capital expenditure	339	10,457	13	23	47	10,879

## 5. TURNOVER AND OTHER REVENUE

Turnover represents an appropriate proportion of contract revenue of construction contracts; the value of services rendered; the rental income from equipment/marine vessels leasing; the net invoiced value of goods sold, after allowance for returns and trade discounts; and securities trading, during the year.

The analysis of the Group's turnover by principal activities are as follows:

	Continuing operations		Discontinuing operations		Consolidated	
	Year ended 30th September, 2002 <i>HK\$'000</i>	Period from 1st July, 2000 to 30th September, 2001 <i>HK\$'000</i>	Year ended 30th September, 2002 <i>HK\$'000</i>	Period from 1st July, 2000 to 30th September, 2001 <i>HK\$'000</i>	Year ended 30th September, 2002 <i>HK\$'000</i>	Period from 1st July, 2000 to 30th September, 2001 <i>HK\$'000</i>
Construction, equipment rental and services income	11,215	—	253,446	423,963	264,661	423,963
Trading income	—	133	12,629	11,468	12,629	11,601
Internet business	—	333	—	—	—	333
Retail business	21,566	—	—	—	21,566	—
Investment holding	3,211	5,930	196	—	3,407	5,930
	<u>35,992</u>	<u>6,396</u>	<u>266,271</u>	<u>435,431</u>	<u>302,263</u>	<u>441,827</u>
<b>Group</b>						
Interest income	—	1,378	408	2,704	408	4,082
Gain on disposal of fixed assets, net	—	—	—	2,268	—	2,268
Gain on exchange difference	—	—	226	—	226	—
Insurance claims	—	—	—	1,271	—	1,271
Sale of used equipment	—	—	—	2,521	—	2,521
Others	2,504	2,067	2,605	1,275	5,109	3,342
	<u>2,504</u>	<u>3,445</u>	<u>3,239</u>	<u>10,039</u>	<u>5,743</u>	<u>13,484</u>

## 6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Included in staff costs is remuneration of the directors disclosed pursuant to the Listing Rules and section 161 of the Companies Ordinance as follows:

	<b>Year ended 30th September, 2002 HK\$'000</b>	<b>Period from 1st July, 2000 to 30th September, 2001 HK\$'000</b>
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,673	1,296
Retirement scheme contributions	24	19
	<u>1,697</u>	<u>1,315</u>

Fees disclosed above include HK\$0 (30th September, 2001: HK\$0) paid to independent non-executive and non-executive directors. There were no other emoluments paid to independent non-executive and non-executive directors. None of the directors have waived the right to receive their emoluments.

The remuneration of the directors falls within the following bands (HK\$):

	<b>Year ended 30th September, 2002 Number of directors</b>	<b>Period from 1st July, 2000 to 30th September, 2001 Number of directors</b>
0 – 1,000,000	3	4
1,000,001 – 1,500,000	1	—
1,500,001 – 2,000,000	—	—
2,000,001 – 2,500,000	—	—
	<u>4</u>	<u>4</u>

The five individuals whose remuneration were the highest in the Group for the year include four directors (30th September, 2001: one director) whose remuneration is disclosed in the analysis presented above. The remuneration payable to the remaining one (30th September, 2001: four) individuals during the year are as follows:

	<b>Year ended 30th September, 2002 HK\$'000</b>	<b>Period from 1st July, 2000 to 30th September, 2001 HK\$'000</b>
Salaries, allowances and benefits in kind	262	4,897
Performance related bonuses	—	—
Contributions to Singapore Central Provident Fund	—	139
	<u>262</u>	<u>5,036</u>

The remuneration falls within the following bands (HK\$):

	<b>Year ended 30th September, 2002 Number of individuals</b>	<b>Period from 1st July, 2000 to 30th September, 2001 Number of individuals</b>
0 – 1,000,000	1	1
1,000,001 – 1,500,000	—	2
1,500,001 – 2,000,000	—	1
	<u>1</u>	<u>4</u>

## 7. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

	Continuing operations		Discontinuing operations		Consolidated	
	Year ended 30th September, 2002 HK\$'000	Period from 1st July, 2000 to 30th September, 2001 HK\$'000	Year ended 30th September, 2002 HK\$'000	Period from 1st July, 2000 to 30th September, 2001 HK\$'000	Year ended 30th September, 2002 HK\$'000	Period from 1st July, 2000 to 30th September, 2001 HK\$'000
<b>Group</b>						
Depreciation:						
Owned fixed assets	602	656	21,554	29,505	22,156	30,161
Leased fixed assets	24	—	—	2,563	24	2,563
Operating lease rentals:						
Land and buildings	1,407	1,892	2,543	1,954	3,950	3,846
Plant and machinery	—	—	—	3,213	—	3,213
Auditors' remuneration	138	319	414	317	552	636
Provision for doubtful recovery of trade debtors	—	432	3,141	23,191	3,141	23,623
Provision for foreseeable losses on contracts in progress	—	—	15,796	79,927	15,796	79,927
Provision for stock obsolescence	—	—	3,029	1,104	3,029	1,104
Provision for dry-docking expenses	—	—	3,711	2,472	3,711	2,472
Provision for permanent diminution in value of investments	53,000	38,980	—	—	53,000	38,980
Provision for diminution in value in other investments	—	33,572	61	—	61	33,572
Provision for doubtful debts	—	16,428	—	—	—	16,428
Goodwill amortisation	758	—	—	—	758	—
Goodwill on acquisition of a subsidiary company fully amortised	—	67,225	—	—	—	67,225
Realisation of exchange fluctuation reserve on liquidation of a subsidiary company	—	27,992	—	—	—	27,992
Exchange losses (exchange gain), net	621	3,523	—	(3,032)	621	491
(Gain) loss on disposal of fixed assets, net	304	—	(1,293)	—	(989)	—
Provision for doubtful recovery of amount due from an associate	—	—	7,588	—	7,588	—
Loss on revaluation of listed securities	4,889	—	—	—	4,889	—
Gain on disposal on major subsidiary group	—	—	(44,551)	—	(44,551)	—

## 8. FINANCE COSTS

	Year ended 30th September, 2002 <i>HK\$'000</i>	Period from 1st July, 2000 to 30th September, 2001 <i>HK\$'000</i>
<b>Group</b>		
Interest expenses on:		
Bank overdrafts	172	—
Term loans	3,366	3,619
Finance leases	465	765
Trade payables	8,552	5,413
Bank loans	37	—
	<u>12,592</u>	<u>9,797</u>

## 9. TAXATION

	Year ended 30th September, 2002 <i>HK\$'000</i>	Period from 1st July, 2000 to 30th September, 2001 <i>HK\$'000</i>
<b>Group</b>		
Taxation charge comprises the following:		
Write-back of deferred overseas tax	922	—
Share of tax of overseas associated companies	(359)	—
Underprovision in prior years	(430)	3,548
	<u>133</u>	<u>3,548</u>

No provision for Hong Kong and overseas profits tax is required as both the Company and the Group incurred a loss for the year except for the discontinuing operations, for which provision has been calculated at the rates applicable in the countries in which the disposed group of subsidiary of companies operate.

**10. LOSS PER SHARE**

The calculation of basic loss per share is based on the net loss of HK\$115,407,000 (30th September, 2001: HK\$329,251,000) attributable to shareholders for the year divided by the weighted average number of 1,490,642,334 (30th September, 2001: 1,039,188,365) ordinary shares in issue during the year.

**11. DISCONTINUING OPERATIONS**

Pursuant to the sale and purchase agreement dated 23rd August, 2002, the Group disposed of its entire interests in Sum Cheong Corporation Pte Limited (“Sum Cheong”) which was engaged in the construction business in Singapore to management of Sum Cheong for a cash consideration of S\$1 (equivalent to HK\$4.5). The disposal of the above interests has resulted in a gain on disposal of subsidiaries of approximately HK\$44.6 million.

The consolidated income statement included the results of the discontinuing operations up to 30th September, 2002 which are summarised below:

	<b>Period from 1st October, 2001 to 30th September, 2002</b>
	<i>HK\$'000</i>
Turnover	266,271
Cost of sales	(259,043)
	<hr/>
Gross profit	7,228
Other revenue and gains	4,902
Administrative expenses	(30,270)
Other operating expenses	(33,698)
Staff costs	(21,387)
	<hr/>
Operating loss from discontinuing operations	<u>(73,225)</u>

## 12. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings HK\$'000	Leasehold land and buildings HK\$'000	Vessels, plant and machinery HK\$'000	Others HK\$'000	Total HK\$'000
<b>Cost:</b>					
At beginning of year	3,167	13,259	383,453	19,836	419,715
Due to acquisition of subsidiaries	—	2,327	496	3,526	6,349
Additions	79	—	978	2,951	4,008
<b>Disposals:</b>					
Arising from disposal of subsidiaries	(3,226)	(13,177)	(372,571)	(20,334)	(409,308)
Write-offs	—	—	(540)	(562)	(1,102)
Others	—	—	(8,662)	(961)	(9,623)
Foreign exchange realignment	(20)	(82)	(2,287)	(116)	(2,505)
At end of year	—	2,327	867	4,340	7,534
<b>Accumulated depreciation:</b>					
At beginning of year	171	11,894	272,547	13,325	297,937
Due to acquisition of subsidiaries	—	—	233	885	1,118
Charge for the year	69	324	20,307	1,480	22,180
Arising from disposal of subsidiaries	(231)	(12,136)	(284,473)	(13,380)	(310,220)
Write-offs	—	—	(170)	(260)	(430)
Others	—	—	(6,605)	(784)	(7,389)
Foreign exchange realignment	(9)	(73)	(1,574)	(78)	(1,734)
At end of year	—	9	265	1,188	1,462
<b>Net book value:</b>					
At 30th September, 2002	<u>—</u>	<u>2,318</u>	<u>602</u>	<u>3,152</u>	<u>6,072</u>
At 30th September, 2001	<u>2,996</u>	<u>1,365</u>	<u>110,906</u>	<u>6,511</u>	<u>121,778</u>

Included in other fixed assets are the net book value of assets held under finance leases and under term loan at 30th September, 2002 amounted to HK\$205,280 (30th September, 2001: HK\$16,442,000) and HK\$nil (30th September, 2001: HK\$2,041,000) respectively.



The Group's leasehold land and building is situated in Hong Kong. The leasehold land and building is held under medium term lease. At 30th September, 2002, the leasehold land and building was pledged to secure bank loan granted to a subsidiary.

<b>Company</b>	<b>Furniture and fittings</b> <i>HK\$'000</i>	<b>Office equipment</b> <i>HK\$'000</i>	<b>Motor vehicle</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Cost:</b>				
At beginning of year	36	138	38	212
Additions	65	302	—	367
Disposals	(101)	(424)	(38)	(563)
	<u>—</u>	<u>16</u>	<u>—</u>	<u>16</u>
<b>Accumulated depreciation:</b>				
At beginning of year	23	84	5	112
Charge for the year	18	122	13	153
Written back on disposals	(41)	(201)	(18)	(260)
	<u>—</u>	<u>5</u>	<u>—</u>	<u>5</u>
<b>Net book value:</b>				
At 30th September, 2002	<u>—</u>	<u>11</u>	<u>—</u>	<u>11</u>
At 30th September, 2001	<u>13</u>	<u>54</u>	<u>33</u>	<u>100</u>

## 13. SUBSIDIARY COMPANIES

Company	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Unlisted shares, at cost	160,371	455,775
Less: Provision for permanent diminution in value	(119,508)	(395,105)
	<u>40,863</u>	<u>60,670</u>
Amounts due from subsidiary companies	245,479	397,644
Less: Provisions for doubtful recovery	(245,479)	(272,578)
	<u>—</u>	<u>125,066</u>
Amounts due to subsidiary companies	(40,863)	(44,439)
	<u>—</u>	<u>141,297</u>

Amounts due from (to) subsidiary companies are non-trade related, interest-free, unsecured and have no fixed terms of repayments.

Particulars of the principal subsidiary companies are as follows:

Name of company	Attributable interest		Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Principal activities
	To the Company %	To the Group %			
Orient Prize Holdings Limited	100	—	British Virgin Islands/ Hong Kong	US\$100	Investment holding
Gain Source Limited	100	—	British Virgin Islands/ Hong Kong	US\$1	Investment holding
Denton Capital Limited	100	—	British Virgin Islands/ Hong Kong	US\$100	Securities trading
Diamond Pearl Limited	100	—	British Virgin Islands/ Hong Kong	US\$1	Investment holding
Total Power Trading Limited	100	—	British Virgin Islands/ Hong Kong	US\$1	Investment holding

Name of company	Attributable interest		Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Principal activities
	To the Company %	To the Group %			
* Fine Lord Constructions Company Limited	—	100	Hong Kong	HK\$13	Provision of engineering works
* Marcello Foods Limited	—	70	Hong Kong	HK\$3,400,000	Trading
* Marcello (Tax Free) International Department Store Corporation Limited	—	60	Hong Kong	HK\$2,000,000	Trading

\* *Not audited by John K.H. Lo & Co. Control of 100% equity interest in Fine Lord Constructions Company Limited was exercised on 25th June, 2002 while 70% and 60% equity interest in Marcello Foods Limited and Marcello (Tax Free) International Department Store Corporation Limited respectively were exercised on 27th June, 2002 during the year. The operating results of all three subsidiaries acquired during the year were accounted for in the consolidated financial statements from 1st July, 2002 to 30th September, 2002. Cost of acquisition and details of purchase consideration paid are stated in Note 30.*

#### 14. ASSOCIATED COMPANIES

	Group		Company	
	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Unlisted shares, at cost	—	—	—	6
Share of net assets	—	1,431	—	—
	—	1,431	—	6
Less: provision for diminution in value	—	—	—	(6)
	—	1,431	—	—
Amounts due from associated companies	—	8,973	—	20
	—	10,404	—	20

The Group's share of the post-acquisition profits of its associated companies as at 30th September, 2002 is nil (30th September, 2001: profit of HK\$993,000).

## 15. LONG TERM INVESTMENTS

	Group		Company	
	30th September, 2002	30th September, 2001	30th September, 2002	30th September, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity investments, at fair value	—	64,124	—	37,979
	<u>—</u>	<u>64,124</u>	<u>—</u>	<u>37,979</u>

## 16. LONG TERM RECEIVABLES

	Group		Company	
	30th September, 2002	30th September, 2001	30th September, 2002	30th September, 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan receivable	—	40,875	—	—
Less: Provision for doubtful recovery	—	(40,875)	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amount receivable from PTJSI	—	58,708	—	—
Less: Provision for doubtful recovery	—	(42,405)	—	—
	<u>—</u>	<u>16,303</u>	<u>—</u>	<u>—</u>
Loan to SSTD	—	5,397	—	—
	<u>—</u>	<u>21,700</u>	<u>—</u>	<u>—</u>
Less: Portion classified as current assets under debtors, deposits and prepayments	—	(16,303)	—	—
	<u>—</u>	<u>5,397</u>	<u>—</u>	<u>—</u>

## 17. STOCKS

<b>Group</b>	<b>30th September, 2002</b> <i>HK\$'000</i>	<b>30th September, 2001</b> <i>HK\$'000</i>
Materials	—	16,848
Spare parts	—	2,531
Equipment	—	2,484
Finished goods	4,925	—
	<u>4,925</u>	<u>21,863</u>

## 18. CONTRACTS IN PROGRESS

<b>Group</b>	<b>30th September, 2002</b> <i>HK\$'000</i>	<b>30th September, 2001</b> <i>HK\$'000</i>
Contract costs incurred plus attributable profits	111,643	986,933
Less: Progress billings	(114,342)	(927,624)
	<u>(2,699)</u>	<u>59,309</u>
Less: Provision for foreseeable losses to date	—	(77,643)
	<u>(2,699)</u>	<u>(18,334)</u>
Representing:		
Gross amount due from contract customers	3,093	32,400
Gross amount due to contract customers	(5,792)	(50,734)
	<u>(2,699)</u>	<u>(18,334)</u>

Included in contract costs is depreciation of property, plant and equipment of HK\$10,826 (30th September, 2001: HK\$465,000) incurred during the year.

## 19. DEBTORS, DEPOSITS AND PREPAYMENTS

(a) Included in debtors, deposits and prepayments are trade debtors with their age analysis as follows:

	Group		Company	
	30th September, 2002 <i>HK\$'000</i>	30th September, 2001 <i>HK\$'000</i>	30th September, 2002 <i>HK\$'000</i>	30th September, 2001 <i>HK\$'000</i>
Current to 30 days	8,212	1,410	—	—
31 to 60 days	4,370	4,713	—	—
61 to 90 days	352	3,447	—	—
Over 90 days	398	58,062	—	—
	<u>13,332</u>	<u>67,632</u>	<u>—</u>	<u>—</u>

The Group has a general credit policy of 30 days.

(b) Sum Cheong Corporation Pte Ltd (“Sum Cheong”) issued an exchangeable note for US\$4.5 million to the Company during the year. The principal terms of the note is interest free and the Company has the right to exchange the amount outstanding in the note into 50% equity interest in CP-Sum Cheong (China) Pte. Ltd, an associated company of Sum Cheong, if no repayment of the principal is made by Sum Cheong to the Company after the maturity date in October 2003. Provision of HK\$2,730,000 was made as at 30th September, 2002 for the impairment of the value of the above note.

(c) As at 30th September, 2002, the retention receivable for contracts in progress amounting to approximately HK\$5,315,000 (30th September, 2001: HK\$13,026,000) has been included in trade debtors. Retention money receivables in respect of construction are settled in accordance with the terms of respective contracts.

## 20. SHORT TERM INVESTMENTS

	30th September, 2002 <i>HK\$'000</i>	30th September, 2001 <i>HK\$'000</i>
<b>Group</b>		
Listed securities, at market value – Hong Kong	<u>230</u>	<u>7,150</u>

## 21. CASH AND BANK BALANCES

	Group		Company	
	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Cash at banks and in hand	4,774	13,883	229	499
Unpledged fixed deposits	—	724	—	—
	4,774	14,607	229	499
Pledged fixed deposits	—	6,631	—	—
	4,774	21,238	229	499

## 22. LOANS AND OTHER OBLIGATIONS

	Group		Company	
	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Current portion of bank loans and other borrowings, unsecured ( <i>note 24</i> )	95	515	—	—
Current portion of finance lease obligations ( <i>note 25</i> )	48	4,844	—	—
	143	5,359	—	—

## 23. CREDITORS AND ACCRUED CHARGES

(a) Included in creditors and accrued charges are trade creditors with their ageing analysis as follows:

	Group		Company	
	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Current to 30 days	10,914	21	—	—
31 to 60 days	8,903	340	—	—
61 to 90 days	3	6,262	—	—
Over 90 days	1,788	169,122	—	—
	21,608	175,745	—	—

- (b) At 30th September, 2002, retention money held from subcontractors for contracts in progress amounting to HK\$nil (30th September, 2001: HK\$21,010,000) has been included in trade creditors.
- (c) Included in creditors and accrued charges was balance due to a director amounting to HK\$5,614,820 (2001: Nil). The balance is unsecured, interest-free and has no fixed terms of repayment.

#### 24. BANK LOANS AND OTHER BORROWINGS

<b>Group</b>	<b>30th September, 2002</b> <i>HK\$'000</i>	<b>30th September, 2001</b> <i>HK\$'000</i>
Bank loans and other borrowings	118,199	515
Portion repayable within 1 year; classified as current liabilities ( <i>note 22</i> )	(95)	(515)
Long term portion	<u>118,104</u>	<u>—</u>
The long term portion is repayable as follows:		
After 1 year but within 2 years	117,203	—
After 2 years but within 5 years	320	—
After 5 years	581	—
	<u>118,104</u>	<u>—</u>

#### 25. FINANCE LEASE OBLIGATIONS

<b>Group</b>	<b>30th September, 2002</b>		<b>30th September, 2001</b>	
	<b>Minimum payments</b> <i>HK\$'000</i>	<b>Present value of payments</b> <i>HK\$'000</i>	<b>Minimum payments</b> <i>HK\$'000</i>	<b>Present value of payments</b> <i>HK\$'000</i>
Within one year ( <i>note 22</i> )	51	48	5,467	4,844
After 1 year but within 2 years	106	96	2,385	2,109
After 2 years but within 5 years	—	—	762	655
	<u>157</u>	<u>144</u>	<u>8,614</u>	<u>7,608</u>
Future finance charges on finance leases	(13)	—	(1,006)	—
Present value of finance lease obligations	<u>144</u>	<u>144</u>	<u>7,608</u>	<u>7,608</u>



**26. DEFERRED TAXATION**

The principal component of deferred taxation in prior year was depreciation allowances in excess of related depreciation charges relating to Sum Cheong group. Due to the disposal of Sum Cheong group, the Group has not provided any deferred tax during the year.

**27. ISSUED CAPITAL**

	30th September, 2002		30th September, 2001	
	Number of shares (thousand)	Nominal value HK\$'000	Number of shares (thousand)	Nominal value HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.40 each				
Balance brought forward	4,000,000	1,600,000	1,000,000	400,000
Increase during year/period	—	—	3,000,000	1,200,000
	<u>4,000,000</u>	<u>1,600,000</u>	<u>4,000,000</u>	<u>1,600,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.40 each				
Balance brought forward	1,490,642	596,257	831,261	332,504
Allotment during year/period	—	—	162,500	65,000
Rights share issue during year/period	—	—	124,220	49,689
Bonus share issue during year/period	—	—	372,661	149,064
	<u>1,490,642</u>	<u>596,257</u>	<u>1,490,642</u>	<u>596,257</u>

**Share options**

Under a share option scheme adopted on 7th March, 2002, the directors may grant options to any employee of the Company or the Group, including executive directors, to subscribe for shares in the Company. The subscription price shall be the higher of a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer date and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options shall be shares representing 10% of the total number of shares in issue from time to time excluding any shares issued under the option scheme.

As at 30th September, 2002, there were no share options outstanding.

## 28. ACCUMULATED LOSSES

	Group		Company	
	30th September,	30th September,	30th September,	30th September,
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance brought forward	(876,103)	(547,312)	(764,460)	(551,212)
Transfer from income statement	(115,407)	(329,251)	(217,494)	(213,248)
Transfer from capital reserve on disposal of fixed assets previously revalued	—	460	—	—
Balance carried forward	<u>(991,510)</u>	<u>(876,103)</u>	<u>(981,954)</u>	<u>(764,460)</u>

## 29. RESERVES

	Group		Company	
	30th September,	30th September,	30th September,	30th September,
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital redemption reserve:				
Balance brought forward and carried forward	<u>976</u>	<u>976</u>	<u>976</u>	<u>976</u>
Share Premium:				
Balance brought forward	299,073	448,137	448,137	448,137
Bonus share issue	<u>—</u>	<u>(149,064)</u>	<u>(149,064)</u>	<u>(149,064)</u>
	<u>299,073</u>	<u>299,073</u>	<u>299,073</u>	<u>299,073</u>
Capital reserve:				
Balance brought forward	(11,933)	(11,933)	—	—
Transfer to income statements upon disposal of major subsidiary group of companies	11,933	—	—	—
Goodwill reserve arising from acquisition of subsidiaries	<u>(6,819)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance carried forward	<u>(6,819)</u>	<u>(11,933)</u>	<u>—</u>	<u>—</u>

	Group		Company	
	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Asset revaluation reserve:				
Balance brought forward	15,485	15,945	—	—
Transfer to accumulated losses on disposal of fixed assets previously revalued	—	(460)	—	—
Transfer to income statements upon disposal of major subsidiary group of companies	(15,485)	—	—	—
Balance carried forward	—	15,485	—	—
Investment revaluation reserve:				
Balance brought forward	(12,192)	(12,192)	—	—
Transfer to income statements upon disposal of major subsidiary group of companies	12,192	—	—	—
Balance carried forward	—	(12,192)	—	—
Exchange fluctuation reserve:				
Balance brought forward	32,780	5,947	—	—
Adjustment on exchange translation	—	(1,159)	—	—
Transfer to income statement on liquidation of a subsidiary company	—	27,992	—	—
Transfer to income statements upon disposal of major subsidiary group of companies	(32,780)	—	—	—
Balance carried forward	—	32,780	—	—
Total	293,230	324,189	300,049	300,049

## 30. ACQUISITION/DISPOSAL OF SUBSIDIARIES

	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
(a) <b>Acquisition of subsidiary companies</b>		
Net assets acquired:		
Fixed assets	5,268	797
Stock	3,764	—
Debtors, deposits and prepayments	27,387	2,711
Cash and bank balances	5,463	293
Creditors and accrued charges	(34,403)	(2,725)
Bank loan – secured	(1,117)	—
Tax payable	(502)	—
	<u>5,860</u>	<u>1,076</u>
Minority interest	(1,436)	(301)
	<u>4,424</u>	<u>775</u>
Goodwill on acquisition	7,576	67,225
	<u>12,000</u>	<u>68,000</u>
Satisfied by:		
Cash	—	3,000
Term loans	1,200	—
Issue of promissory notes	10,800	—
Issue of shares at HK\$0.4 each	—	65,000
	<u>12,000</u>	<u>68,000</u>
Cash flow on acquisition net of cash acquired:		
Cash consideration	—	3,000
Cash and bank balances acquired	5,463	(293)
Bank loans	(1,117)	—
	<u>4,346</u>	<u>2,707</u>

The subsidiaries acquired during the year contributed approximately HK\$32,781,000 to the Group's turnover and a loss of approximately HK\$1,234,000 to the Group's loss for the year. Net liabilities sustained in the subsidiaries acquired during the year as at 30th September, 2002 was approximately HK\$6,791,000.

	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
(b) <b>Disposal of subsidiary companies</b>		
Net assets disposed of:		
Fixed assets	98,810	—
Long term investments	23,308	—
Inventory and work in progress	24,067	—
Debtors, deposits and prepayments	112,315	—
Cash and bank balances	8,196	—
Creditors and accrued charges	(192,855)	—
Taxation	(1,006)	—
Deferred tax	(14,501)	—
Hire purchase and lease creditors	(2,792)	—
Long term creditors	(26,326)	—
	<hr/>	<hr/>
	29,216	—
Capital reserve realised on disposal	(3,306)	—
Translation reserve realised on disposal	(33,387)	—
Prior year adjustment	(4,677)	—
US\$4.5 million exchangeable note issued by SCC	(34,633)	—
Cost in relation to disposal	2,236	—
	<hr/>	<hr/>
	(44,551)	—
Gain on disposal of subsidiary company	44,551	—
	<hr/>	<hr/>
	—	—
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash consideration (S\$1.00)	—	—
	<hr/> <hr/>	<hr/> <hr/>
Cash flow on disposal net of cash disposed of:		
Cash and bank balances disposed of	8,196	—
	<hr/>	<hr/>
	8,196	—
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries disposed of during the year contributed approximately HK\$266,271,000 to the Group's turnover and a loss of approximately HK\$83,649,000 to the Group's loss for the year.

## 31. CASH AND CASH EQUIVALENTS

	<b>30th September, 2002</b>	<b>30th September, 2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at banks and in hand	4,774	13,883
Unpledged fixed deposits	—	724
	<u>4,774</u>	<u>14,607</u>

## 32. CONTINGENT LIABILITIES

	<b>Group</b>		<b>Company</b>	
	<b>30th September, 2002</b>	<b>30th September, 2001</b>	<b>30th September, 2002</b>	<b>30th September, 2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantee facilities	—	81,722	—	153,567
Performance bonds	—	40,613	—	—
Guarantee for promissory notes	—	—	10,941	—
	<u>—</u>	<u>122,335</u>	<u>10,941</u>	<u>153,567</u>

The Company is the guarantor for promissory notes issued by its subsidiary amounting to HK\$10,941,000 including interest. One of the terms of the promissory notes is that first repayment of half of the principal plus interest accrued should be made to the Noteholder in December 2002. Extension for repayment has been granted to 26th June, 2004.

## 33. COMMITMENTS

Commitments outstanding at 30th September, 2002 not provided for in the financial statements were as follows:

	Group		Company	
	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000	30th September, 2002 HK\$'000	30th September, 2001 HK\$'000
Capital commitments:				
Contracted for	—	23,850	—	—
Authorised but not contracted for	40	—	—	—
	<u>40</u>	<u>23,850</u>	<u>—</u>	<u>—</u>
Annual commitments under Non-cancellable operating leases:				
Land and buildings expiring:				
Within one year	985	456	30	—
In the second to fifth years, inclusive	1,296	3,979	10	311
Other equipment expiring in the second to fifth years, inclusive	—	126	—	—
	<u>2,281</u>	<u>4,561</u>	<u>40</u>	<u>311</u>

In addition to the events described above, the Group and the Company had no significant commitments at the balance sheet date.

**34. POST BALANCE SHEET EVENTS**

- (a) The board of directors announced on 19th December, 2002 that proposals would be put forward to the shareholders for share consolidation and capital reduction (collectively as “Capital Reorganisation”). The share consolidation will be made whereby every ten shares of HK\$0.40 each in the issued and unissued share capital of the Company will be consolidated into one consolidated share of HK\$4.00 each and fractions of a consolidated share will not be issued. After the share consolidation, the nominal value of the issued and unissued consolidated shares will be reduced from HK\$4.00 to HK\$0.01 each pursuant to the capital reduction.

Circular dated 13th January, 2003 containing details of the Capital Reorganisation were sent to shareholders. The Capital Reorganisation is conditional upon: 1) the passing of an ordinary resolution to approve the share consolidation at the extraordinary general meeting (“EGM”) which was held on 6th February, 2003 and; 2) the passing of a special resolution to approve the capital reduction at the EGM and; 3) the passing of an ordinary resolution to approve the increase of capital at the EGM and; 4) the confirmation by the court of the capital reduction and the registration by the Registrar of Companies in Hong Kong of an office copy of the Court order and the minute containing the particulars required under section 61 of the Companies Ordinance; and 5) the Listing Committee of the Stock Exchange granting (either unconditionally or subject to conditions to which the Company shall not reasonably object) listing of, and permission to deal in, the new shares.

The resolutions as stated above were passed during the EGM held on 6th February, 2003.

- (b) The board of directors announced on 14th January, 2003 that it was informed by Sum Cheong that Sum Cheong Corporation Pte Ltd. (“Sum Cheong”) entered into a Call Option Agreement together with Favour Smart Ltd (“FSL”) and C&P China Pte. Ltd. (“CP China”) on 9th January, 2003 whereby FSL, in consideration of the receipt of the call option fee of US\$415,000 (or equivalent to approximately HK\$3.2 million), has conditionally agreed to grant the rights to CP China to require FSL to sell to CP China all of the call option shares and assign and transfer to CP China all its rights, title, benefits and interests in respect of the loans owing to Sum Cheong by CP-Sum Cheong (China) Pte. Ltd. (“CP Sum Cheong”) at exercise price of US\$3,735,000 (or equivalent to approximately HK\$29.1 million) payable in cash upon completion.

As detailed in the announcement made by the Company dated 23rd August, 2002 in respect of the management buy-out of 100% interest in Sum Cheong, the Exchangeable Note with a principal amount of US\$4.5 million (or equivalent to approximately HK\$35.1 million) can be exchanged by the Company for 50% equity interest in CP Sum Cheong mandatorily at any time within 12 months from the date of the issue of the Exchangeable Note.



After the shareholders' approval of the transactions contemplated under the Call Option Agreement is obtained at the EGM, FSL is entitled to be registered as the holder of the Call Option Shares. The directors intend to exchange the Exchangeable Note for 50% equity interest in CP Sum Cheong holding through FSL on the completion date immediately after FSL having been registered as the holder of the call option shares. If the call option is exercised by CP China the Company exchanges the Exchangeable Note for the call option shares, the call option shares and the loans (as stated above) will be sold and assigned to CP China by the group on the completion date at a total cash consideration (comprising the call option fee and the exercise price) of US\$4,150,000 (or equivalent to approximately HK\$32.4 million).

Circular dated 13th January, 2003 had been sent to shareholders for the major terms and conditions of the Call Option Agreement. Completion is subject to 1) the approval by the shareholders at the EGM in respect of the transactions contemplated under the Call Option Agreement on or before 28th February, 2003 and, 2) CP China exercising the call option within the period which is at any time commencing from the date of the Call Option Agreement and ending on the date falling one month after 28th February, 2003 which may be extended for an additional two months from the expiry of the one month period at the option of CP China.

The resolution as stated above had been passed during the EGM held on 10th February, 2003.

### **35. RELATED PARTY TRANSACTIONS**

Other than normal trading transactions between the Company and its subsidiary companies, there are no related party transactions during the year.

### **36. LITIGATION**

On 4th May, 2001, Guido Giacometti, a trustee for the estate of Sukamto Sia fka Sukarman Sukamto, a former Director and substantial shareholder of the Company, commenced proceedings against the Company in the U.S. Bankruptcy Court in the District of Hawaii claiming against the Company, among other things, the sum of US\$590,000 together with attorneys' fees and costs. The Company received the summon and the related documents on 21st September, 2001, and the Company is seeking legal advice in connection with the matter. The Company has made provision of HK\$5,000,000 in connection with the claim.

### **37. COMPARATIVE FIGURES**

Comparative figures are for the period from 1st July, 2000 to 30th September, 2001. Due to the adoption of new/revised SSAPs during the current year, the presentation of the income statement, the balance sheet, the cash flow statement and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

### **38. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on 13th February, 2003.

## III. UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MARCH, 2003

Set out below are the unaudited consolidated interim results of the Group for the six months ended 31st March, 2003, together with comparative figures for the corresponding period in the last financial year as extracted from the unaudited financial statements of the Company for the six months ended 31st March, 2003:

**Condensed Consolidated Income Statement**

*For the six months ended 31st March, 2003*

	<i>Notes</i>	<b>Six months ended 31st March,</b>	
		<b>2003</b> <i>HK\$'000</i> (unaudited)	<b>2002</b> <i>HK\$'000</i> (unaudited)
Turnover		50,550	104,472
Cost of sales		(46,353)	(102,988)
Gross profit		4,197	1,484
Other operating income		190	1,610
Administrative expenses		(6,527)	(16,769)
Other operating expenses		(587)	(9,041)
Loss from operations	4	(2,727)	(22,716)
Finance costs		(3,253)	(1,951)
Gain on disposal of a subsidiary	5	4,629	–
Share of result of an associate		–	(633)
Loss before taxation		(1,351)	(25,300)
Taxation	6	(5)	(495)
Loss before minority interests		(1,356)	(25,795)
Minority interests		(44)	–
Net loss for the period		(1,400)	(25,795)
Loss per Share – Basic	7	HK\$(0.009)	HK\$(0.173)

**Condensed Consolidated Balance Sheet***At 31st March, 2003*

	<i>Notes</i>	<b>31st March, 2003</b> <i>HK\$'000</i> (unaudited)	<b>30th September, 2002</b> <i>HK\$'000</i> (audited) (restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		5,541	6,072
Goodwill		6,440	6,819
		<u>11,981</u>	<u>12,891</u>
<b>CURRENT ASSETS</b>			
Inventories		3,368	4,925
Amounts due from customers for contract works		4,262	3,093
Trade and other receivables	8	6,887	46,755
Other investment		–	230
Bank balances and cash		3,562	4,774
		<u>18,079</u>	<u>59,777</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract works		4,018	5,792
Trade and other payables	9	25,951	41,960
Taxation payable		14	516
Obligations under a finance lease		75	48
Bank and other borrowings	10	83,135	95
		<u>113,193</u>	<u>48,411</u>
<b>NET CURRENT (LIABILITIES) ASSETS</b>		<u>(95,114)</u>	<u>11,366</u>
		<u><u>(83,133)</u></u>	<u><u>24,257</u></u>

		<b>31st March, 2003</b>	<b>30th September, 2002</b>
	<i>Notes</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (audited) (restated)
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>11</i>	596,257	596,257
Reserves		(692,861)	(691,461)
		<u>(96,604)</u>	<u>(95,204)</u>
<b>MINORITY INTERESTS</b>			
		<u>1,309</u>	<u>1,261</u>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under a finance lease		–	96
Bank and other borrowings	<i>10</i>	12,162	118,104
		<u>12,162</u>	<u>118,200</u>
		<u>(83,133)</u>	<u>24,257</u>

**Condensed Consolidated Statement of Changes in Equity***For the six months ended 31st March, 2003*

	Share capital	Share premium	Capital redemption reserve	Capital reserve	Asset revaluation reserve	Investment revaluation reserve	Translation reserve	Accumu- lated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st October, 2001	596,257	299,073	976	(11,933)	15,485	(12,192)	32,780	(876,103)	44,343
Exchange adjustment arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	-	-	-	2,136	-	2,136
Net loss for the period	-	-	-	-	-	-	-	(25,795)	(25,795)
At 31st March, 2002	596,257	299,073	976	(11,933)	15,485	(12,192)	34,916	(901,898)	20,684
Released upon disposal of subsidiaries	-	-	-	11,933	(15,485)	12,192	(34,916)	-	(26,276)
Net loss for the period	-	-	-	-	-	-	-	(89,612)	(89,612)
At 30th September, 2002	596,257	299,073	976	-	-	-	-	(991,510)	(95,204)
Net loss for the period	-	-	-	-	-	-	-	(1,400)	(1,400)
At 31st March, 2003	<u>596,257</u>	<u>299,073</u>	<u>976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(992,910)</u>	<u>(96,604)</u>

**Condensed Consolidated Cash Flow Statement***For the six months ended 31st March, 2003*

	<b>Six months ended</b>	
	<b>31st March,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Net cash used in operating activities	(1,353)	(3,294)
Net cash from investing activities	32,097	13,435
Net cash used in financing activities	(31,956)	(1,262)
Net (decrease) increase in cash and cash equivalents	(1,212)	8,879
Cash and cash equivalents at beginning of the period	4,774	14,607
Effect of foreign exchange rate changes	—	(201)
Cash and cash equivalents at end of the period, representing bank balances and cash	<u>3,562</u>	<u>23,285</u>

**Notes to the Condensed Financial Statements**

*For the six months ended 31st March, 2003*

**1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of approximately HK\$95 million. The directors have been taking steps to improve the Group’s liquidity position. On 20th May, 2003, the Group entered into conditional agreements (“Agreements”), subject to the approval by the shareholders of the Company, to issue shares to new investors for an aggregate consideration of approximately HK\$90 million. Also, a conditional deed of settlement is to be entered into with loan providers to release and discharge the Group from net financial obligations of approximately HK\$32.4 million at 31st March, 2003 after the settlement of HK\$20 million to such loan providers upon successful completion of the Agreements. On the basis that the Agreements for issuing shares to new investors can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed financial statements have been prepared on a going concern basis.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th September, 2002, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of the statement of changes in equity, but has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

**Foreign Currencies**

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income

and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

### Employee Benefits

In the current period, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group's defined contribution retirement benefit plan. The adoption of this SSAP has not had any material effect on the results for the current or prior accounting periods.

### 3. SEGMENTAL INFORMATION

The Group's turnover and contribution to loss from operations for the six months ended 31st March, 2003 analysed by business segments and geographical segments are as follows:

#### Business segments

Six months ended 31st March, 2003

	Investment in securities <i>HK\$'000</i>	Construction, equipment rental and services in Hong Kong <i>HK\$'000</i> <i>(note a)</i>	Retail <i>HK\$'000</i> <i>(note a)</i>	Consolidated <i>HK\$'000</i>
Turnover	–	16,431	34,119	50,550
<b>RESULT</b>				
Segment result	–	(778)	(265)	(1,043)
Unallocated corporate expenses				(1,684)
Loss from operations				(2,727)
Finance costs				(3,253)
Gain on disposal of a subsidiary				4,629
Loss before taxation				(1,351)



Six months ended 31st March, 2002

	Continuing operation	Discontinuing operation		Consolidated HK\$'000
	Investment in securities HK\$'000	Construction, equipment rental and services in Singapore HK\$'000 (note b)	Trading in Singapore HK\$'000 (note b)	
Turnover	3,312	93,979	7,181	104,472
RESULT				
Segment result	(4,295 )	(11,104)	(95)	(15,494)
Unallocated corporate expenses				(7,222)
Loss from operations				(22,716)
Finance costs				(1,951)
Share of results of an associate				(633)
Loss before taxation				(25,300)

### Geographical segments

An analysis of the Group's revenue by geographical location of its customers is presented below:

	Turnover Six months ended 31st March,	
	2003 HK\$'000	2002 HK\$'000
Singapore (note b)	–	100,133
Hong Kong (note a)	50,550	3,211
Others	–	1,128
	50,550	104,472

*Notes:*

- (a) In June 2002, the Group acquired 100% interest in Fine Lord Constructions Company Limited (“Fine Lord”), 70% interest in Marcello Foods Limited (“Marcello Food”) and 60% interest in Marcello (Tax Free) International Department Store Corporation Limited (“Marcello (Tax Free)”). Fine Lord is mainly engaged in the provision of construction, equipment rental and services in Hong Kong, representing the business segment of construction, equipment rental and services for the period ended 31st March, 2003.

Marcello Food and Marcello (Tax Free) are engaged in the retailing of consumer goods, representing the business segment of retail for the period ended 31st March, 2003.

- (b) In August 2002, the Group disposed of its entire interest in Sum Cheong Corporation Pte. Ltd. (“Sum Cheong”). Sum Cheong is engaged in the construction, equipment rental and services and trading businesses in Singapore. Upon the completion of the disposal, the Group had no interest in Sum Cheong and the business segment of construction, equipment rental and services and trading in Singapore were regarded as discontinuing operation in 2002.

#### 4. LOSS FROM OPERATIONS

	Six months ended	
	31st March,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Depreciation and amortisation		
– Owned assets	769	11,159
– Assets held under finance lease	34	30
Amortisation of goodwill included in other operating expense	379	–
Unrealised loss on investments in securities	–	4,295
	<u>          </u>	<u>          </u>

#### 5. GAIN ON DISPOSAL OF A SUBSIDIARY

During the period, the Company disposed of its entire interest in Denton Capital Investments Limited, with a net liabilities of approximately HK\$4,629,000 at the date of disposal, for a consideration of HK\$1.

**6. TAXATION**

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group had no assessable profit in either periods.

The taxation charge for the period ended 31st March, 2003 represents the underprovision of Hong Kong Profits Tax in previous years.

The taxation charge for the period ended 31st March, 2002 represented underprovision for tax in other jurisdictions in previous years.

**7. LOSS PER SHARE**

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$1,400,000 (HK\$25,795,000 for the six months ended 31st March, 2002) and on the 149,064,233 ordinary shares (149,064,233 ordinary shares for the six months ended 31st March, 2002) in issue during the period adjusted for the effect of consolidation of shares as described in note 11.

No diluted loss per share is presented for either period as there are no dilutive ordinary shares in issue.

**8. TRADE AND OTHER RECEIVABLES**

The credit term granted by the Group to its trade customers normally ranges from 30 to 60 days.

Included in trade and other receivables are trade receivables of approximately HK\$4,830,000 (30th September, 2002: approximately HK\$13,332,000) and their aged analysis is as follows:

	<b>31st March, 2003 HK\$'000</b>	<b>30th September, 2002 HK\$'000</b>
0 to 30 days	2,478	8,212
31 to 60 days	2,352	4,370
61 to 90 days	–	352
Over 90 days	–	398
	<hr/>	<hr/>
	4,830	13,332
Other receivables	2,057	33,423
	<hr/>	<hr/>
	<b>6,887</b>	<b>46,755</b>
	<hr/> <hr/>	<hr/> <hr/>

Included in trade and other receivable at 30th September, 2002 is an exchangeable note held by the Group with a carrying value of US\$4,150,000 (approximately HK\$32,370,000) (“Exchangeable Note”) due from Sum Cheong. The Exchangeable Note is unsecured, interest free and entitles the holder at any time before October 2003 to convert into 50% equity interest in CP-Sum Cheong (China) Pte. Ltd. (“Sum Cheong (China)”) held by Sum Cheong.

During the period, Sum Cheong entered into a call option agreement (“Call Option Agreement”) with Favour Smart Limited (“Favour Smart”), a wholly owned subsidiary of Sum Cheong at the time of the agreement, and C&P China Pte Ltd. (“C&P China”), a company also having 50% equity interest in Sum Cheong (China) whereby Favour Smart upon the receipt of a call option fee of US\$415,000 (approximately HK\$3,227,000), granted an option to C&P China to require Favour Smart to sell to C&P China the 50% equity interest in Sum Cheong (China) (“Call Option Share”), and, assign and transfer to C&P China all its rights, title, benefits and interests in respect of the loans owing to Sum Cheong by Sum Cheong (China) at an exercise price of US\$3,735,000 (approximately HK\$29,133,000).

On 14th February, 2003, C&P China exercised the option and require Favour Smart to sell to C&P China all of the Call Option Shares at the exercise price of US\$3,735,000. At the same time, the Group converted the Exchangeable Note into 50% equity interest in Sum Cheong (China) and held by Favour Smart which became a direct wholly-owned subsidiary of the Company pursuant to the exchange of the Exchangeable Note.

The 50% equity interest in Sum Cheong (China) was then sold to C&P China on 19th February, 2003 at a total consideration of US\$4,150,000.

The above transactions were completed on 19th February, 2003 and the respective cash inflow of HK\$32,370,000 is disclosed as cash from investing activities. The transactions contemplated under the Call Option Agreement were approved by the shareholders of the Company at an extraordinary general meeting on 10th February, 2003. Details of the transactions were set out in the circulars to the Company’s shareholders dated 24th January, 2003.

**9. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of approximately HK\$14,551,000 (30th September, 2002: approximately HK\$21,608,000) and their aged analysis is as follows:

	<b>31st March, 2003 HK\$'000</b>	<b>30th September, 2002 HK\$'000</b>
Current to 30 days	12,035	10,914
31 to 60 days	28	8,903
61 to 90 days	732	3
Over 90 days	1,756	1,788
	<hr/>	<hr/>
Other payables	14,551	21,608
	<hr/>	<hr/>
	11,400	20,352
	<hr/>	<hr/>
	25,951	41,960
	<hr/> <hr/>	<hr/> <hr/>

**10. BANK AND OTHER BORROWINGS**

During the period, the Group obtained new borrowings in the amount of HK\$25 million from an independent third party. The borrowings bear interest at 2% per annum and are repayable in August 2003. The proceeds were used as the financing for the operation of the Group. In addition, the Group also made repayment of HK\$57.4 million.

A conditional deed of settlement is to be entered into by the Company, China Strategic Holdings Limited ("CSH") and Grand Orient Limited, a wholly owned subsidiary of CSH, for the release and discharge of the Group from its net financial obligations of approximately HK\$32.4 million at 31st March, 2003 following the payment of the settlement sum of HK\$20 million upon successful completion of the Agreements (note 1).

## 11. SHARE CAPITAL

	Number of shares	Value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.40 each		
At 1st October, 2001, 31st March, 2002, 30th September, 2002 and 31st March, 2003	<u>4,000,000,000</u>	<u>1,600,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.40 each		
At 1st October, 2001, 31st March, 2002, 30th September, 2002 and 31st March, 2003	<u>1,490,642,334</u>	<u>596,257</u>

Pursuant to the special resolution passed at the extraordinary general meetings held on 6th February, 2003:

- every ten ordinary shares of HK\$0.40 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$4.00 each (“Consolidated Share”);
- the nominal value of the issued and unissued Consolidated Shares were reduced from HK\$4.00 each to HK\$0.01 each (“Capital Reduction”);
- the credit of approximately HK\$594,766,000 arisen as a result of the Capital Reduction were credited to eliminate accumulated losses of the Company;
- upon the Capital Reduction becoming effective, the authorized share capital of the Company was increased from HK\$4,000,000 to HK\$1,600,000,000 by the creation of 159,600,000,000 shares of HK\$0.01 each. The new shares rank pari passu with the then existing shares in all respect.

Details of the capital reorganisation (“Capital Reorganisation”) were set out in the circular to the Company’s shareholders dated 13th January, 2003. The Capital Reorganisation was effective on 2nd June, 2003.

**12. CAPITAL COMMITMENTS**

At 30th September, 2002, the Group was committed to capital expenditure authorised but not contracted for of approximately HK\$40,000 in respect of property, plant and equipment.

At 31st March, 2003, the Group had no capital commitments.

**13. LITIGATION**

On 4th May, 2001, Guido Giacometti, a trustee of the estate of Mr. Sukamto Sia fka Sukarman Sukamto (“Mr. Sukamto”), a former director and substantial shareholder of the Company, commenced proceedings against the Company in the U.S. Bankruptcy Court in the District of Hawaii claiming against the Company, among other things, the sum of US\$594,027 (of which US\$500,000 being partial refund of the deposit and US\$94,027 being interest accrued upon), together with attorneys’ fees and costs. The claim is related to an amount of US\$594,027 refunded to the Company by Mr. Sukamto in relation to an investment previously made by the Company through Mr. Sukamto after the Company had decided not to make the investment. However, Mr. Sukamto was subsequently declared bankrupt and therefore the bankruptcy trustee commenced proceedings against the Company in relation to such refund made before Mr. Sukamto’s bankruptcy. The Company received the summon and the related documents on 21st September, 2001.

As at the date of this report, the Company is awaiting for hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the Company has made provision of HK\$5,000,000 in connection with the claim for the year ended 30th September, 2002, the directors are of the opinion that there is unlikely to be any material adverse impact on the Group in the event that the final judgement is not in favour of the Company.

**14. PLEDGE OF ASSETS**

At 31st March, 2003, the bank borrowings of the Group were secured by property, plant and equipment with a carrying value of approximately HK\$2,293,000 (30th September, 2002: approximately HK\$2,318,000).

**15. POST BALANCE SHEET EVENTS**

The Group had the following significant events subsequent to 31st March, 2003:

- (a) On 20th May, 2003, the Company entered into a conditional subscription agreement (“Subscription Agreement”) with Silver Rich Macau Development Limited, Spring Wise Investments Limited and Leader Assets Limited (“Subscribers”), pursuant to which the Subscribers agreed to subscribe for 1,043,200,000 new shares of HK\$0.01 each in the Company at a subscription price of HK\$0.0671 per share, amounting to a total consideration of approximately HK\$70 million. The Subscription Agreement was completed on 25th July, 2003.

- (b) On 20th May, 2003, the Company entered into a conditional placing agreement (“Placing Agreement”) with an independent placing agent, in relation to the placing of 298,000,000 new shares of HK\$0.01 each in the Company, on a best effort basis, at a placing price of HK\$0.0671 per share, amounting to a total consideration of approximately HK\$20 million. The Placing Agreement was completed on 31st July, 2003.
- (c) The Capital Reorganisation of the Company as detailed in note 11 was effective on 2nd June, 2003.

#### IV. INDEBTEDNESS STATEMENT

##### **Borrowings**

At the close of business on 31st October, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$17,264,000, representing secured bank borrowings of approximately HK\$992,000 (secured by certain property, plant and equipment of the Group), other borrowings of approximately HK\$5,736,000, promissory notes in an aggregate amount of approximately HK\$10,512,000 and obligations under finance leases of approximately HK\$24,000.

##### **Debt securities**

At the close of business on 31st October, 2003, the Group had no debt securities.

##### **Securities and guarantees**

At the close of business on 31st October, 2003, the Group’s banking facilities were secured by the Group’s property, plant and equipment with a net book value of approximately HK\$2.3 million.

##### **Contingent liabilities**

At the close of business on 31st October, 2003, the Group had no contingent liabilities.

##### **Capital commitments**

At the close of business on 31st October, 2003, the Group had no capital commitments.

##### **Disclaimer**

Save as aforesaid and apart from intra-group liabilities and the litigation as set out under the section headed “Material litigation” in Appendix III to this circular, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st October, 2003.



Foreign currencies amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 31st October, 2003.

The Directors have confirmed that, there has been no material change in the indebtedness and contingent liabilities position of the Group since 31st October, 2003.

## V. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the existing financial resources available to the Group and the expected internally generated funds, the Group has sufficient working capital for its present requirement.

## VI. MATERIAL CHANGE

Save as those disclosed in the unaudited interim results for the six months ended 31st March, 2003 in this appendix, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 30th September, 2002, the date to which the latest published audited financial statements of the Company were made up.

## VII. FINANCIAL AND TRADING PROSPECTS

### Construction business

Construction projects generated turnover of about approximately HK\$16.4 million which contributed 32.5% of the Group's total turnover for the six months ended 31st March, 2003. The construction market remains sluggish in Hong Kong during the period under review and intense competitions also exerted downward pressure on the tender prices. For the six months ended 31st March, 2003, the construction business of the Group incurred an operating loss of approximately HK\$0.8 million.

### Retail business

Being still at its start-up stage of its business life cycle, the retail business of the Group has built up a significant volume of turnover amounting to approximately HK\$34.1 million during the six months ended 31st March, 2003. Such success was mainly brought about by the removal of quotas on incoming PRC tourists. However, as competition in the domestic market was keen, the retail business of the Group recorded an operating loss of approximately HK\$0.3 million.

### Prospects of the cruise business

The Directors consider that the acquisition and the leasing of the Cruise Ship signifies the Group's first step to enter into the entertainment and tourism businesses in Hong Kong and Macau. Through developing the cruise business, the Group expects to seize the opportunities brought about by the growing entertainment and tourism industries in Hong Kong and Macau. In addition, the Directors consider that the acquisition and the leasing of the Cruise Ship will provide stable and substantial revenues to the Group and lay down a solid foundation for the future development of the core business of the Group.

*The following is the text of the Valuation Report received from Sallmanns, the independent plant and machinery valuers, in connection with their opinion of the value of the Cruise Ship and the Inventories as at 10th November, 2003.*



# Sallmanns

Corporate valuation and consultancy

[www.sallmanns.com](http://www.sallmanns.com)



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24th December, 2003

The Directors  
Macau Success Limited  
Rm. 1002-05A  
10/F., West Tower  
Shun Tak Centre  
200 Connaught Road  
Central  
Hong Kong

Dear Sirs,

In accordance with your instructions, we have conducted a valuation of a passenger/casino cruise ship exhibited to us as that held by Kong Wing Limited (the “Vendor”) in which Macau Success Limited (the “Company”) intends to acquire. We confirm that we have carried out inspections, made relevant inquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the cruise ship as at 10th November, 2003.

We have valued the vessel on the basis of its fair market value which is defined as the estimated amount at which the subject asset in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both.

Our estimate of fair market value is made on the assumption that the asset could be sold in the open market for its continued use. It is not intended to represent the amount that might be realized from piecemeal disposition of the asset in the market place or for some other use of the asset. Our opinion of fair market value does not include mooring right or debenture that may be associated with the vessel.

This summary report forms part of the detailed valuation report dated 24th December, 2003, which comprises:

- (i) A narrative section which identifies and describes the vessel; scope and character of our investigation; the premise of the value adopted; the valuation process employed and the opinion of value;
- (ii) Limiting conditions;
- (iii) Valuer's professional declaration;
- (iv) Inventories; and
- (v) Photographs.

### NARRATIVE DESCRIPTION

The vessel subject of this appraisal is a 9-deck passenger/casino cruise ship identified as **M/V "Omar II"** (formerly "Astra II"). She was originally built in Denmark in 1974 under the name "Golden Odyssey" and was sold and renamed "Astra II" in 1994. She was bought and resold again in 2000 and is currently engaged in night casino cruises under the name "Omar II". The ship has a total of 207 fully air-conditioned passenger cabins complete with casino, video arcade, mahjong room, duty free gift shop, restaurant and bars, and other amenities such as sauna and massage parlor, sun deck, fitness center and hair and beauty salon. It is also equipped with a medical clinic servicing emergency medical needs aboard the ship. The vessel is a twin screw steel hull construction with the following technical details: –

Name of Vessel	:	<b>OMAR II</b>
Type of Service	:	Passenger/Casino Cruise
Year/Place Built	:	1974/Helsingor, Denmark
Construction	:	Steel, twin screw
Port of Registry	:	Nassau, Bahamas
Length	:	116.13 meters
Breadth	:	19.20 meters
Depth	:	11.95 meters
Gross Tonnage	:	9,848 tons

**Main Propulsion Engine** : **2x12-cylinder Marine Diesel Engines –**  
 Mak, Germany, model no. 12MU551AK, 7500hp capacity each,  
 425rpm 1973 year built

- Auxiliary Equipment** : **4-Electric Generators –**  
Asea, Germany, model GF560M, 1000kVA capacity each, each driven by Mak, Germany made, model 8M282AK, 16-cylinder, 1250hp diesel engine
- 2 Boilers –**  
Euro-therm, model HEOSO-VV, 3.15Gcal/hr capacity
- 2-Lub Oil Purifiers –**  
Titan, model CNSA69, 1400Liter/hr capacity
- 2-Lub Oil Receivers –**  
1500L capacity
- 3-Chillers –**  
approximately 400kW capacity each, complete with refrigerant compressors, condensers, evaporators and chilled water pumps
- 1-Incinerator –**  
Bornaway, model SBW100
- Navigational Equipment** : **2-Marine Radars –**  
Kelvin Hughes, UK, model 5000T
- 1-Marine Chart Plotter –**  
Raytheon, UK
- 3-Gyro Compasses –**  
Anschutz – Kiel
- 1-Global Positioning System –**  
Raytheon, model NT200
- 1-Voyage Data Recorder –**  
Broadgate, model VER3000
- 1-VHF Radio Telephone –**  
STN Atlas, model Debeg 6348
- 1-Loudspeaker –**  
STN Atlas, model Debeg H2074
- 2-Printers –**  
STN Atlas, model Debeg H1252B
- 1-Scanning Receiver –**  
STN Atlas, Debeg 2110MF/HF
- 1-VHF Radio Telephone –**  
STN Atlas, Debeg 6348
- 1-DSC/Telex Modem –**  
STN Atlas, Debeg 2157
- 1-Signal Controller –**  
Tyfon, type T1212
- 1-Satellite Disc –**
- 1-Marine Navigator –**  
Nauticast
- 1-GMDSS VHF Receiver –**  
STN Atlas, model Debeg 6701

**1-Message Terminal –**

STN Atlas, model Debeg 3657E

**1-Navtex Receiver –**

Alden, model AE-900

**1-VHF DSC Receiver Modem –**

Sailor, model Compact RM2042

**1-Electromagnetic Speed Log –**

Calypso

**1-Data Display and Interface –**

AMI-GFV Marine, UK, type 950E, 7/2003 date manufactured

**1 set-Public Addressing System –**

comprising:

14-Power Amplifiers

Amplidan, 100W capacity each

1-AM/FM Unit

1-Program Selector Panel

1-Pulseflow D/A Converter  $\pi$ 

1-Digital Satellite Decoder –

DSTV, model ABS-8976

1-AV Module –

PolyCompact, model SPM1000

- Life Saving Equipment** : **2-Rescue Boats –**  
 motorized, frp construction, 75 passengers capacity each
- 4-Life Boats –**  
 frp construction, 9.45 meters x 3.2 meters x 1.43 meters length x  
 breadth x depth, 98 passengers capacity each
- 2-Life Boats –**  
 frp construction, 9.45 meters x 3.2 meters x 1.43 meters length x  
 breadth x depth, 60 passengers capacity each
- 8-Life Rafts –**  
 China made, model RAFT-A-25(II), 25 passengers capacity
- Other Equipment** : Consisting of different types of fire fighting equipment, furniture  
 and office equipment, hotel and restaurant equipment, gymnasium  
 equipment, kitchen equipment and laundry equipment

The motor vessel was inspected whilst moored at Victoria Harbour, Hong Kong.

**Exclusion**

Except for the 25 units of slot machines and 2 units of poker machines, this valuation excludes other casino and gaming equipment. Also excluded are sauna equipment, and some personal property.

**Inspection**

We have personally inspected the vessel and based on records and documents furnished to us, our findings are as follows:-

1. The Certificate of Registry indicates that the vessel is owned by Kong Wing Limited with office address located at 414 Tsimshatsui Centre, East Wing, No. 66 Mody Road, TST East, Kowloon, Hong Kong.
2. The Certificate of Inspection indicates that the motor vessel is managed by Conning Shipping Limited with office address located at Rm. 3317, 33F. China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road, Central, Hong Kong.
3. The motor vessel was granted Certificate of Inspection by The Bahamas Maritime Authority with validity until 30th July, 2004 issued at Hong Kong on the 8th July, 2003.

From the general examination of the vessel whilst afloat as far as practicable without removal to expose parts concealed at the time of inspection and without witnessing in operation, we are of the opinion that the vessel is fit and in suitable condition for the purpose it was built.

**VALUATION METHODOLOGY**

There are three generally accepted approaches to value, namely:

**The Cost Approach**

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history. The cost approach generally furnishes the most reliable indication of value for assets without a known used market.

**The Market Approach**

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery and equipment relative to the market comparative. Assets for which there is an established used market may be appraised by this approach.

**The Income Approach**

The income approach is the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consists of all assets of a business enterprise including working capital and tangible and intangible assets.

Any number or combination of the three approaches to value may be used in a particular valuation, depending upon the appraisal's objectives and the nature of the property involved.

In all situations, all approaches to value must be considered, as one or more may be applicable to the subject asset. In some situations, elements of the three approaches may be combined to reach a value conclusion. However, the relative strength, applicability, and significance of the approaches and their resulting values must be analyzed and reconciled.

We have considered and excluded the income approach due to insufficient financial data being available and have considered both the cost approach and the market approach in arriving at our conclusion of value.

In arriving at a fair estimate of value of the vessel we have given consideration to the cost of reproduction new, current prices for similar used vessel in the second hand market, accrued depreciation, age, condition, past maintenance and present and prospective serviceability in comparison with new units of like kind.

Application of the market approach involved an analysis of the used market to measure the value level of exchanges of comparable property. An estimated amount is added to or deducted from the market price to reflect the difference in condition and utility between the item appraised and its normal used market comparatives.

Where the basis is the cost approach, an estimate is made on the cost of reproduction new or replacement cost, less allowance for depreciation or loss of value arising from condition, utility, age, wear and tear, and obsolescence, taking into consideration past and present maintenance policy, and rebuilding history, if any, and current utilization.

Cost of reproduction new is the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets taking into consideration current prices of materials, manufactured equipment, labour, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition, but without provision for overtime or bonuses for labour and premium for materials.

We hereby certify that we have neither a present nor a prospective interest in the vessel appraised or the value reported. We have not investigated the title to or any liabilities affecting the vessel appraised.

**OPINION OF VALUE**

Premised on the foregoing, we are of the opinion that **USD12,489,000 (UNITED STATES DOLLARS TWELVE MILLION FOUR HUNDRED EIGHTY NINE THOUSAND)** fairly represents the fair market value of the vessel as at 10th November, 2003.

Yours faithfully  
For and on behalf of  
**SALLMANN'S (FAR EAST) LIMITED**  
**Mario E. Maninggo - BSME**  
*Associate Director*  
*Plant and Machinery Valuation*

*Note:* Mario E. Maninggo is a mechanical engineer who has extensive experience in plant and machinery valuation in Hong Kong, the PRC and the Asia Pacific region.



## I. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinion expressed in this circular has 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 herein misleading.

## II. DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:—

#### (a) *Interests in the Shares*

Name	Long position/ Short position	Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Sonny Yeung Hoi Sing (Note 1)	Long position	Corporate interest	678,080,000	42.7%
Mr. Chan William (Note 2)	Long position	Corporate interest	290,606,000	18.3%

Notes: 1. Mr. Sonny Yeung Hoi Sing is deemed to have corporate interest in 678,080,000 Shares by virtue of the interest of the Shares held by Silver Rich Macau Development Limited, which is wholly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Sonny Yeung Hoi Sing.

2. Mr. Chan William is deemed to have corporate interest in 290,606,000 Shares by virtue of his interest in the issued share capital of Spring Wise Investments Ltd.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or 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 (a) 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 (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange .

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

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:–

*Interests in the Shares*

<b>Name of Shareholder</b>	<b>Long position/ Short position</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
Silver Rich Macau Development Limited	Long position	Corporate interest	678,080,000	42.7%
Spring Wise Investments Ltd.	Long position	Corporate interest	290,606,000	18.3%
Mr. Chan Hon Keung (Note)	Long position	Corporate interest	290,606,000	18.3%

*Note: Mr. Chan Hon Keung is deemed to have corporate interest in 290,606,000 Shares by virtue of his interest in the issued share capital of Spring Wise Investments Ltd.*

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no other person had, or was deemed or taken to have an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) **Substantial shareholders of other members of the Group**

As at the Latest Practicable Date, so far as was known to the Directors, no other person was, 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 the subsidiaries of the Company or had any option in respect of such capital.

(d) As at the Latest Practicable Date, none of the Directors had, or had had, any interest, direct or indirect, in any assets which since 30th September, 2002, the date to which the latest published audited financial statements of the Company were made up, have been acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

(e) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date, which was significant in relation to the business of the Company or any of its subsidiaries.

### III. MATERIAL LITIGATION

As mentioned in the Company's announcement dated 23rd August, 2002 and the annual report of the Company for the 15 months ended 30th September, 2001, on 4th May, 2001, Guido Giacometti, a trustee for the estate of Sukamto Sia fka Sukarman Sukamto ("Mr. Sukamto"), a former Director and substantial Shareholder, commenced proceedings against the Company in the U.S. Bankruptcy Court in the District of Hawaii claiming against the Company, among other things, the sum of US\$594,027 (of which US\$500,000 being partial refund of the deposit and US\$94,027 being interests accrued thereon; equivalent to approximately HK\$4,600,000) together with attorneys' fees and costs. The claim is related to a sum of US\$594,027 (equivalent to approximately HK\$4,600,000) refunded to the Company by Mr. Sukamto in relation to an investment previously made by the Company through Mr. Sukamto after the Company had decided not to make the investment. However, Mr. Sukamto was subsequently declared bankrupt and therefore the bankruptcy trustee commenced proceedings against the Company in relation to such refund made before Mr. Sukamto's bankruptcy. The Company received the summons and the related documents on 21st September, 2001 and has instructed lawyers to defend the proceedings which have not yet been finalised. As at the Latest Practicable Date, a provision of HK\$5 million has been made in connection with the aforesaid claim for prudence sake.

Saved for the above litigation, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claims of material importance and no litigation, arbitration or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

**IV. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into, any service contracts with any member of the Group which would not expire or be determined by the Group within one year without payment of compensation (other than statutory compensation).

**V. QUALIFICATION OF EXPERT**

The following is the qualification of the expert who has given opinion contained in this circular:

<b>Name</b>	<b>Qualification</b>
Sallmanns (Far East) Limited	The independent plant and machinery valuers

**VI. EXPERT**

- (1) As at the Latest Practicable Date, Sallmanns did not have any shareholding in any member of the Group or any right or option to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (2) As at the Latest Practicable Date, Sallmanns did not have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 30th September, 2002, the date to which the latest published audited financial statements of the Company were made up.
- (3) Sallmanns had given and had not withdrawn its consent to the issue of this circular with the inclusion herein of the Valuation Report and references to its name in the form and context in which they appear.

**VII. MATERIAL CONTRACTS**

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

- (1) the sale and purchase agreement dated 21st August, 2002 entered into between the Company, as vendor, and Dr. Albert Hong Hin Kay, as purchaser and as announced by the Company on 23rd August, 2002, whereby the Company agreed to sell and Dr. Albert Hong Hin Kay agreed to purchase the entire 100% equity interest in Sum Cheong Corporation Pte Ltd. upon the terms and conditions therein contained;

- (2) the debt restructuring agreement dated 21st August, 2002 entered into between the Company, China Strategic Holdings Limited (“CSH”) and Grand Orient Limited (“Grand Orient”) and as announced by the Company on 23rd August, 2002 whereby (i) CSH had granted a new loan facility to the Company of an amount up to approximately HK\$48.6 million; and (ii) Grand Orient had granted indulgence to the Company in respect of the repayment of all indebtedness and sums which were then or at any time due and payable by the Company to Grand Orient;
- (3) a call option agreement dated 9th January, 2003 entered into between Sum Cheong Corporation Pte Ltd., Favour Smart Limited and C&P China Pte Ltd. pursuant to which Favour Smart Limited, in consideration of the payment of the call option fee of US\$415,000 (or equivalent to approximately HK\$3.2 million) paid by C&P China Pte Ltd., had conditionally agreed to grant to C&P China Pte Ltd. a call option to acquire all 100,000 issued shares of CP-Sum Cheong (China) Pte Ltd. from Favour Smart Limited upon the terms and conditions contained in the call option agreement;
- (4) the placing agreement dated 20th May, 2003 entered into between the Company and Tai Fook Securities Company Limited in relation to the placing of 298,000,000 new Shares at HK\$0.0671 per Share as supplemented by a supplemental agreement dated 10th June, 2003 between the parties thereto;
- (5) the subscription agreement dated 20th May, 2003 entered into between the Company and Silver Rich Macau Development Limited, Spring Wise Investments Ltd. and Leader Assets Ltd. in relation to the subscription of an aggregate of 1,043,200,000 new Shares at HK\$0.0671 per Share as supplemented by a supplemental agreement dated 10th June, 2003 between the parties thereto;
- (6) the placing agreement dated 3rd November, 2003 entered into between the Company and Tai Fook Securities Company Limited in relation to the placing of 97,200,000 new Shares at HK\$0.4325 per Share as supplemented by a supplemental agreement dated 17th November, 2003 between the parties thereto;
- (7) the Agreement; and
- (8) the Memorandum (including the Bareboat Charter).

### VIII. MISCELLANEOUS

- (1) The company secretary of the Company is Ms. Agnes N.Y. Chiu, who is a practising solicitor in Hong Kong.
- (2) The registered office of the Company is at Room 1002-05A, 10/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.
- (3) The share registrars of the Company in Hong Kong is Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

- (4) The English text of this circular and of the form of proxy shall prevail over the Chinese text.

**IX. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays and public holidays) at the registered office of the Company at Room 1002-05A, 10/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the year ended 30th September, 2002 and for the fifteen months ended 30th September, 2001;
- (c) the interim report of the Company for the six months ended 31st March, 2003;
- (d) the Valuation Report dated 24th December, 2003, the text of which is set out in Appendix II to this circular;
- (e) the letter of consent dated 24th December, 2003 from Sallmanns referred to under the section headed “Expert” in this appendix;
- (f) the material contracts referred to under the section headed “Material contracts” in this appendix; and
- (g) the circular issued by the Company to the Shareholders dated 24th January, 2003.



**MACAU SUCCESS LIMITED**

**澳門實德有限公司**

*(Incorporated in Hong Kong with limited liability)*

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the members of Macau Success Limited (the “**Company**”) will be held at Room 1002-05A, 10/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Friday, 9th January, 2004 at 4:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as an ordinary resolution of the Company.

**ORDINARY RESOLUTION**

**“THAT:**

- (a) (i) the entering into of the conditional agreement dated 9th December, 2003 (the “**Agreement**”), a copy of which has been produced to the meeting marked “A” and initialled by the Chairman of the meeting for the purpose of identification, made between Access Success Development Limited (“Access Success”; the Company’s wholly-owned subsidiary), Summit Global International Limited (“Summit Global”) and Mantovana Holdings Limited (“Mantovana”) as buyers and Kong Wing Limited as seller whereby the Company, through Access Success, has agreed to acquire a 55% interest in a cruise ship known as “Omar II” and the inventories therein (together referred to as the “Vessel”) at the purchase price of US\$6.6 million (equivalent to approximately HK\$51.5 million) and HK\$550,000 respectively upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the Agreement be and are hereby approved; and
- (ii) any one director of the Company be and is hereby authorised to do such acts or execute such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Agreement, including such changes and amendments thereto as any one director of the Company may consider necessary, desirable or expedient; and
- (b) (i) the entering into of the conditional memorandum dated 9th December, 2003 (the “**Memorandum**”), a copy of which has been produced to the meeting marked “B” and initialled by the Chairman of the meeting for the purpose of identification, made

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## NOTICE OF EGM

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between Access Success, Summit Global and Mantovana as lessors and Hover Management Limited (“Hover”) as lessee whereby, subject to, inter alia, completion of the Agreement, Access Success, Summit Global and Mantovana would lease the Vessel to Hover upon the terms and subject to the conditions therein contained, be and is hereby approved, confirmed and ratified and the transactions contemplated under the Memorandum be and are hereby approved;

- (ii) any one director of the Company be and is hereby authorised to do such acts or execute such other documents by hand or, in case of execution of documents under seal, to do so jointly with either the secretary or a second director of the Company or a person appointed by the board of directors of the Company, which in his or their opinion may be necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Memorandum, including such changes and amendments thereto as any one director of the Company may consider necessary, desirable or expedient.”

By Order of the Board  
**Agnes N.Y. Chiu**  
*Company Secretary*

Hong Kong, 24th December, 2003

*Registered Office:*

Room 1002-05A, 10/F.  
West Tower, Shun Tak Centre  
200 Connaught Road Central  
Hong Kong

*Notes:*

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the office of the Company’s share registrar, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.