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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this document 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 and/or transferred all your shares in Macau Success Limited, you should at once hand this document and the enclosed forms of proxy to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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A Chinese version of this document is available to the Overseas Shareholders (as defined in this document), on request. Please provide your written request to the share registrar of Macau Success Limited, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong if you need a copy of the Chinese version of this document.

海外股東(定義見本文件)可要求索取本文件的中文版本。閣下如欲索取本文件的中文版本,敬請向澳門實德有限公司之股份過戶登記處登捷時有限公司提出書面申請,地址為香港灣仔告士打道56號東亞銀行香港中心地下。

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### MACAU SUCCESS LIMITED

澳門實德有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 487)**

**Recommended proposal for  
Macau Success Limited (a company incorporated in Hong Kong with limited liability)  
to become a wholly-owned subsidiary of**

**MACAU SUCCESS LIMITED**

**澳門實德有限公司\***

*(A new holding company incorporated*

*in Bermuda with limited liability and the shares of which will be listed on the main board of*

*The Stock Exchange of Hong Kong Limited by way of introduction)*

**by way of scheme of arrangement**

*(Under section 166 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong)*

**Sponsor and Financial Adviser**



大福融資有限公司  
TAI FOOK CAPITAL LIMITED

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Notices of the Court Meeting (as defined in this document) convened pursuant to the direction of the Court (as defined in this document) and of the EGM (as defined in this document) both to be held on Monday, 27th September, 2004 at 10:00 a.m. and 10:15 a.m. (or as soon thereafter as the Court Meeting shall have been concluded or adjourned) respectively at Units 1002-05A, 10th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong are set out on pages 186 to 190 of this document.

Subject to the granting of listing of, and permission to deal in, the shares of Macau Success Limited on the main board of the Stock Exchange (as defined in this document) and compliance with the stock admission requirements of the HKSCC (as defined in this document), those shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS (as defined in this document) with effect from the commencement date of dealings in such shares or such other date as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS operational procedures in effect from time to time.

Whether or not you are able to attend the respective meetings, please complete and return the enclosed forms of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not later than the times specified thereon respectively. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the Court Meeting and the EGM or any respective adjournment thereof should you so wish.

\* for identification purpose only

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## DEFINITIONS

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

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Bareboat Charter”	a bareboat charter dated 12th January, 2004 entered into between Capture Success and the Cruise Operator in relation to the leasing of the Cruise Ship
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which banks are open for business in Hong Kong
“Capital Reduction”	the proposed reduction of capital of the Company as described in sub-paragraph e) under paragraph 3 of the Explanatory Statement
“Capture Success”	Capture Success Limited, a company incorporated in the British Virgin Islands with limited liability which is a 55% owned subsidiary of the Company and the registered owner of the Cruise Ship. The remaining 30% and 15% equity interests in Capture Success are respectively held by Summit Global International Limited and Mantovana Holdings Limited, both of which are Independent Third Parties save for their equity interests in Capture Success
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended from time to time
“Company”	Macau Success Limited 澳門實德有限公司, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Court”	the Court of First Instance of the High Court, Hong Kong

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## DEFINITIONS

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“Court Meeting”	the meeting of the Shareholders convened pursuant to the direction of the Court for the purpose of approving the Scheme or any adjournment thereof
“Cruise Operator” or “Hover BVI”	Hover Management Limited, a company incorporated in the British Virgin Islands with limited liability. Each of Hover Management Limited and its beneficial owners is an Independent Third Party
“Cruise Ship”	a cruise ship named Macau Success owned as to 55% by the Group
“Directors”	the directors of the Company or the Newco (as the case may be)
“Effective Date”	the date upon which the Scheme, if approved by the Court, becomes effective, which is expected to be 27th October, 2004
“EGM”	an extraordinary general meeting of the Company to be held for the purpose of approving, inter alia, the Scheme and the Capital Reduction or any adjournment thereof
“EGM Notice”	the notice convening the EGM as set out on pages 188 to 190 of this document
“Eligible Participants”	any employee, executive or officer of any member of the Group or any Invested Entity (including the executive and non-executive directors) and any vendor, supplier, consultant, agent, adviser or customer who is eligible to participate in the Newco Share Option Scheme
“Explanatory Statement”	the explanatory statement relating to the Proposed Reorganisation, the text of which is set out on pages 12 to 30 of this document
“General Mandates”	the Issue Mandate and the Repurchase Mandate
“Group”	the Company and its subsidiaries and, upon the Scheme becoming effective, the Newco and its subsidiaries, which will include the Company and its subsidiaries

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## DEFINITIONS

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“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hover HK”	Hover Management Limited 豪華管理有限公司, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Capture Success
“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
“Invested Entity”	any entity in which the Group holds any equity interest
“Issue Mandate”	a mandate to authorise the Directors to allot and issue new Newco Shares or convertible securities or similar rights to subscribe for any Newco Shares or convertible securities of the Newco
“Latest Practicable Date”	19th August, 2004, being the latest practicable date prior to the printing of this document for ascertaining certain information for inclusion in this document
“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mr. Yeung”	Mr. Yeung Hoi Sing, Sonny, an executive Director
“Newco”	Macau Success Limited, an exempted company incorporated in Bermuda with limited liability under the Companies Act and the shares of which are proposed to be listed on the main board of the Stock Exchange by way of introduction
“Newco Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Newco

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## DEFINITIONS

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“Newco Shareholder(s)”	registered holder(s) of the Newco Shares and any person entitled by transmission to be registered as such and includes joint holders
“Newco Share Option Scheme”	the share option scheme which has, conditionally upon the Scheme becoming effective, been adopted by the Newco, the principal terms of which are summarised in the section headed “Newco Share Option Scheme” in Appendix II to this document
“Offer Date”	the date (being a Business Day) on which an Option is offered to an Eligible Participant
“Option(s)”	option(s) to subscribe for Newco Shares to be granted pursuant to the Newco Share Option Scheme
“Overseas Shareholder(s)”	Shareholder(s) whose address(es), as shown on the register of members of the Company at the Record Time, is (are) in any territory other than Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this document, excludes Hong Kong, Macau and Taiwan
“Proposed Reorganisation”	the proposed reorganisation of the Group which will involve (i) a change of domicile of the Company by way of the Scheme; (ii) the Capital Reduction; and (iii) a declaration of dividend in specie of the Group’s 55% interest in the Cruise Ship and the Group’s interest in its existing tourists-related businesses by the Company to the Newco
“Record Time”	4:00 p.m. (Hong Kong time) on the Business Day immediately preceding the Effective Date
“Repurchase Mandate”	a mandate to authorise the Directors to repurchase fully paid Newco Shares
“Scheme”	the proposed scheme of arrangement under section 166 of the Companies Ordinance as set out on pages 180 to 185 of this document, with or subject to any modification thereof or addition thereto or conditions approved or imposed by the Court
“Scheme Shares”	the 1,587,464,233 Shares in issue as at the Latest Practicable Date together with any further Shares which may be issued at or before the Record Time

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## DEFINITIONS

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“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 7th March, 2002
“Shareholder(s)”	registered holder(s) of the Shares and any person entitled by transmission to be registered as such and includes joint holders
“Silver Rich”	Silver Rich Macau Development Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Yeung
“Spring Wise”	Spring Wise Investments Limited, a company incorporated in the British Virgin Islands with limited liability which is beneficially owned as to 50% by Mr. Chan William, an executive Director, and as to 50% by Mr. Chan Hon Keung, the father of Mr. Chan William
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, which is a licensed corporation under the SFO to carry out Type 6 regulated activity for the purposes of the SFO, being the financial adviser to the Company and the sponsor to the Newco
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US”	the United States of America
“HK\$” and “cents”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the US
“%”	per cent.



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## EXPECTED TIMETABLE

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2004

*(Hong Kong time  
unless otherwise indicated)*

Latest time for lodging forms of transfer of Shares to  
qualify for entitlement to vote at the Court Meeting  
and the EGM . . . . . 4:30 p.m. on Wednesday, 22nd September

Register of members closed to determine who can vote  
at the Court Meeting and the EGM. . . . . Thursday, 23rd September to  
Monday, 27th September

Latest time for lodging forms of proxy in respect of:  
Court Meeting (*Notes 1 and 2*) . . . . . 10:00 a.m. on Saturday, 25th September  
EGM (*Notes 1 and 2*) . . . . . 10:15 a.m. on Saturday, 25th September

Court Meeting . . . . . 10:00 a.m. on Monday, 27th September

EGM (*Note 3*) . . . . . 10:15 a.m. on Monday, 27th September

Court hearing of petition to sanction the Scheme  
and confirm the Capital Reduction . . . . . Monday, 18th October

Last day of dealings in the Shares . . . . . Monday, 18th October

Dealings in Shares ceased . . . . . 4:00 p.m. on Monday, 18th October

Announcement of the result of court hearing of petition  
to sanction the Scheme and confirm the Capital Reduction  
and the Effective Date to be published on or about . . . . . Tuesday, 19th October

Latest time for lodging forms of transfer of Shares  
in order to be entitled to the Newco Shares. . . . . 4:30 p.m. on Thursday, 21st October

Register of members closed to determine who  
can be entitled to the Newco Shares. . . . . Monday, 25th October to  
Tuesday, 26th October

Record Time . . . . . 4:00 p.m. on Tuesday, 26th October

Withdrawal of listing of the Shares . . . . . close of business on Wednesday, 27th October

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## EXPECTED TIMETABLE

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2004

*(Hong Kong time  
unless otherwise indicated)*

Despatch of share certificates of the Newco Shares . . . . . Wednesday, 27th October

Effective Date (*Note 4*) . . . . . Wednesday, 27th October

Dealings in the Newco Shares commence . . . . . 9:30 a.m. on Thursday, 28th October

**Shareholders should note that the above timetable, which is mainly dependent on the availability of the dates for the Court to hear the Scheme and confirm the Capital Reduction, is subject to change. Further announcement(s) will be made as and when appropriate.**

*Notes:*

1. The forms of proxy should be returned to the Company's share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by the time mentioned above; in the case of the form of proxy for the Court Meeting, it may also be handed to the chairman of the Court Meeting at that meeting. A proxy at the Court Meeting or the EGM need not be a member of the Company.
2. Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the relevant meeting if he/she so wishes. In such event, his/her form of proxy will be deemed to have been revoked.
3. The EGM will be held at 10:15 a.m. or so soon thereafter as the Court Meeting shall have been concluded or adjourned.
4. The Scheme will become effective when it is sanctioned, with or without modification, by the Court and an office copy of the order of the Court is delivered to the Registrar of Companies in Hong Kong for registration, which is expected to take place on Wednesday, 27th October, 2004. If the Scheme shall not have become effective by 31st December, 2004, or such later date as the Court may allow, the Scheme will lapse. The Shareholders will be advised by a press announcement of the exact date upon which the Scheme becomes effective.
5. The Capital Reduction will become effective when it is confirmed by the Court and an office copy of the order of the Court and a minute of order approved by the Court containing the particulars required under the Companies Ordinance are delivered to the Registrar of Companies in Hong Kong for registration, which is expected to take place on Monday, 18th October, 2004.

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## LETTER FROM THE BOARD

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### MACAU SUCCESS LIMITED

澳門實德有限公司

*(Incorporated in Hong Kong with limited liability)*

*Executive Directors:*

Mr. Yeung Hoi Sing, Sonny

Mr. Chan William

Mr. Lee Siu Cheung

*Registered Office:*

Units 1002-05A, 10th Floor  
West Tower, Shun Tak Centre  
200 Connaught Road Central  
Hong Kong

*Non-executive Director:*

Mr. Choi Kin Pui, Russelle

*Independent Non-executive Directors:*

Mr. Luk Ka Yee, Patrick

Mr. Yim Kai Pung

Ms. Yeung Mo Sheung, Ann

27th August, 2004

*To the Shareholders*

Dear Sir or Madam,

### **PROPOSED REORGANISATION**

#### **1. INTRODUCTION**

On 9th March, 2004, the Directors announced that the Company intended to put forward to the Shareholders the Proposed Reorganisation which would involve: (i) a change of domicile of the Company by way of the Scheme; (ii) the Capital Reduction; and (iii) a declaration of dividend in specie of the Group's 55% interest in the Cruise Ship. In addition, the Directors also propose to declare a dividend in specie of the Group's interest in its existing tourists-related businesses by the Company to the Newco.

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## LETTER FROM THE BOARD

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The change of domicile of the Company will be implemented by way of the Scheme, pursuant to which the structure of the Group will be reorganised such that the Newco, a company incorporated in Bermuda with limited liability, will become the new holding company of the Group and the Shareholders will receive one Newco Share for every Scheme Share held at the Record Time and become the Newco Shareholders thereafter. As a result of the Scheme, the Company and all existing subsidiaries of the Company will become subsidiaries of the Newco and the Newco will become the ultimate holding company of the Group. Upon completion of the Scheme, the Newco Shares will be listed on the main board of the Stock Exchange by way of introduction whereas the listing status of the Company will be withdrawn.

In addition to the Company's proposed change of domicile, the Proposed Reorganisation will also involve the Capital Reduction and a declaration of dividend in specie of the Group's 55% interest in the Cruise Ship and the Group's interest in its existing tourists-related businesses by the Company to the Newco. The Group's tourists-related businesses include 1) business in entertainment industry such as the management of on-board cruise activities for tourists in the Cruise Ship; and 2) business in services industry such as the travel agency business carried out by a wholly-owned subsidiary of the Company, Travel Success ("Travel Success"), which is mainly targeted at corporate customers. Travel Success is operated through an outlet located in Shun Tak Centre, Hong Kong which provides i) worldwide air/sea transportation reservations and ticketing; ii) worldwide hotel reservations; and iii) selling of holiday packages for the Cruise Ship and other destinations, including Asian, European and American regions. The on-board cruise activities, services and amenities offered by the Cruise Ship include restaurants, bars, discos and karaoke, mahjong, beauty salons, massage facilities, retail shopping and casino activities.

As at the Latest Practicable Date, the Group's tourists-related businesses, which commenced operations after 30th September, 2003, mainly comprise 1) 55% interest in Hover HK, which is principally engaged in the management of the operations of the Cruise Ship; and 2) 100% interest in Travel Success, a company incorporated in Hong Kong with limited liability, which is principally engaged in travel agency business.

The purpose of this document is to provide the Shareholders with details of the Proposed Reorganisation and to seek the Shareholders' approval thereof. If the Scheme shall not have become effective on or before 31st December, 2004 or such later date as the Court may allow, the Scheme and the Proposed Reorganisation will lapse.

Further details and the effects of the Proposed Reorganisation which comprises the Scheme are set out in the Explanatory Statement.

## **2. BACKGROUND OF THE GROUP**

The Company, formerly known as China Development Corporation Limited, has been a main board listed company principally engaged in construction business in Hong Kong and Singapore. The Group experienced liquidity problem in around 2002 owing to the consecutive loss making history of its Singapore construction arm and the likelihood of crystallisation of certain material

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## LETTER FROM THE BOARD

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contingent liabilities against its Singapore construction arm. In view of the sluggish outlook of the Singapore construction market at that time, the Group disposed of its Singapore construction arm through a management buy-out arrangement in September 2002 and at the same time entered into a debt restructuring arrangement with one of its major creditors. Details of the aforesaid management buy-out and debt restructuring arrangements were set out in the Company's circular dated 13th September, 2002. Thereafter, the Group focused its development on the construction and tourists-related retail businesses in Hong Kong.

Since July 2003, a group of investors led by Mr. Yeung has become the controlling Shareholder through subscription of new Shares. The proceeds of the aforesaid subscription amounted to approximately HK\$70 million. The Company has applied such proceeds as to approximately HK\$25.0 million to finance the acquisition of 55% stake in the Cruise Ship and as to approximately HK\$45.0 million to settle the outstanding debts of the Group. Details of the subscription of the Shares made by Mr. Yeung and other investors were set out in the Company's circular dated 2nd July, 2003. With the efforts of the existing management of the Group, the total liabilities of the Group decreased significantly from approximately HK\$166.6 million as at 30th September, 2002 to approximately HK\$53.5 million as at 30th September, 2003.

Following the subscription of the Shares by Mr. Yeung and other investors, the Group continued its construction and tourists-related retail businesses in Hong Kong. The performance of the Group's tourists-related retail business was benefited from the relaxation of travel restrictions of the PRC residents by the PRC government. In view of the favourable outlook of tourism industry, the Group acquired a 55% stake in the Cruise Ship and entered into the Bareboat Charter simultaneously in January 2004. Pursuant to the Bareboat Charter, the Cruise Operator is obliged to pay to the Group a monthly charter which includes a fixed sum of HK\$2.5 million and a variable amount based on 15% of the monthly revenue generated by the Cruise Ship. Details of the acquisition of 55% stake in the Cruise Ship and the Bareboat Charter were set out in the Company's circular dated 24th December, 2003. In view of the positive outlook of tourists-related businesses in the upcoming year, the Directors intended to divert more resources in developing the Group's tourists-related businesses.

Although the Hong Kong property market had been picked up and the property prices had gradually increased during the fourth quarter of 2003 and the first quarter of 2004, the Directors were of the view that the outlook of the Group's construction business was not promising as the intense and cutthroat-price competitions had continuously exerted tremendous pressure on the tender prices of the construction projects in Hong Kong and hence the performance of the Group's construction business remained unfavourable. Besides, the unemployment rate in Hong Kong remained high which might have a negative impact on Hong Kong property market in the long run. As such, the Group disposed of and discontinued all of its construction business in March 2004. Details of the disposal of the Group's construction business were set out in the announcement of the Company dated 31st March, 2004.

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## LETTER FROM THE BOARD

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In view of the improving operating results of the Group and the promising outlook of the Group's cruise business and other tourists-related businesses which may have an international perspective in the long run, and taking into account the fact that formation of the Newco in the Bermuda jurisdiction would (i) provide the Company with more flexibility for distribution of earnings in the future; (ii) allow the Group to project a more international image to its clients and business partners; and (iii) transform the Group from being perceived as a local group into an international group, the Directors consider that the proposed change of domicile of the Company from Hong Kong to Bermuda is in the best interests of the Group and the Shareholders as a whole. Furthermore, the Directors consider that it is beneficial to the Group and the Shareholders as a whole to implement the Scheme such that the future development of the Group should be better secured as newly acquired assets or future assets to be acquired by the Newco will not be subject to claims, if any, from trading parties or creditors of the Company. Though, the Board is not aware of any potential or hidden claims against the Company, out of abundance of caution, the Board considers that it is prudent for newly acquired assets or future assets to be acquired by the Newco be protected through implementation of the Scheme.

### 3. RECOMMENDATIONS

Having taken into account (i) the background of the Group; and (ii) the detailed reasons for implementing and the effect of the Proposed Reorganisation as set out in the Explanatory Statement, the Directors consider that the Proposed Reorganisation is in the best interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the Court Meeting to approve and implement the Scheme and to vote in favour of the resolutions to be proposed at the EGM to approve and implement the Scheme and the Capital Reduction.

### 4. ACTIONS TO BE TAKEN

Your attention is drawn to the section headed "Actions to be taken" in the Explanatory Statement for the recommended actions to be taken by you as Shareholders.

### 5. ADDITIONAL INFORMATION

Your attention is also drawn to further details of the Proposed Reorganisation provided in the Explanatory Statement set out on pages 12 to 30 of this document.

Yours faithfully,  
For and on behalf of the Board of  
**Macau Success Limited**  
**Yeung Hoi Sing, Sonny**  
*Chairman*

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## EXPLANATORY STATEMENT

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*The Explanatory Statement constitutes the statement required under Section 166A of the Companies Ordinance.*

### PROPOSED REORGANISATION

#### 1. INTRODUCTION

On 9th March, 2004, the Directors announced that the Company intended to put forward to the Shareholders the Proposed Reorganisation which would involve: (i) a change of domicile of the Company by way of the Scheme; (ii) the Capital Reduction; and (iii) a declaration of dividend in specie of the Group's 55% interest in the Cruise Ship by the Company to the Newco. In addition, the Directors also propose to declare a dividend in specie of the Group's interest in its existing tourists-related businesses by the Company to the Newco.

The change of domicile of the Company will be implemented by way of the Scheme, pursuant to which the structure of the Group will be reorganised such that the Newco, a company incorporated in Bermuda with limited liability, will become the new holding company of the Group and the Shareholders will receive one Newco Share for every Scheme Share held at the Record Time and become the Newco Shareholders thereafter. As a result of the Scheme, the Company and all existing subsidiaries of the Company will become subsidiaries of the Newco and the Newco will become the ultimate holding company of the Group. Upon completion of the Scheme, the Newco Shares will be listed on the main board of the Stock Exchange by way of introduction whereas the listing status of the Company will be withdrawn.

The purpose of this document is to explain to the Shareholders the reasons for and the effect of the Proposed Reorganisation and the steps required to implement it. **Your attention is drawn, in particular, to the letter from the Board and Section 2 in this Explanatory Statement in which the Board recommends you, as a Shareholder, to vote in favour of the resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Scheme and the Capital Reduction respectively.**

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## EXPLANATORY STATEMENT

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### 2. REASONS FOR IMPLEMENTING THE SCHEME

The Scheme involves (i) a change of domicile of the Company from Hong Kong to Bermuda; and (ii) the reorganisation of the Group structure such that the Newco will become the new holding company of the Group in the manner as detailed in Section 1 in this Explanatory Statement. The reasons for the implementation of the Scheme are set out below.

#### (i) Reasons for change of domicile of the Company from Hong Kong to Bermuda

##### *Flexibility in distribution of earnings*

The Directors consider that the establishment of the Newco in the Bermuda jurisdiction would provide more flexibility to the Company for distribution of earnings in the future. Under Bermuda law, share premium of a Bermuda company can be reduced with the approval of the shareholders and if the company can satisfy a solvency test and comply with the publication requirement in accordance with the Companies Act. The credit arising from a reduction of the share premium account be transferred to a distributable reserve account which can then be used to set off any accumulated losses of the company. In contrast with a Bermuda company, a Hong Kong company is not permitted under Hong Kong law to utilise its share premium to set off any accumulated losses or to transfer such amount to a distributable reserve account unless in compliance with the Companies Ordinance, which states that any reduction in the share premium account shall be subject to shareholders' approval and confirmation by the Court unless the share premium account is applied by the company a) in paying up unissued shares of the company to be issued to the members of the Hong Kong company as fully paid bonus shares; or b) in writing off (i) the preliminary expenses of the Hong Kong company; or (ii) the expenses of, or the commission paid or discount allowed on, any issue of shares of the Hong Kong company. In addition, a reduction of share capital of a Bermuda company does not require court sanction whereas a reduction in capital of a company incorporated in Hong Kong is prohibited under the Companies Ordinance unless approval by the Court is obtained.

##### *Facilitate more flexible business development strategies and the future expansion of the Group*

The establishment of a new overseas holding company will enable the Group to set up companies directly under the new holding company to exploit any possible future overseas business development opportunities which will be separated from its existing Hong Kong business structure of the Group. With the primary area of operations of the Group's cruise business is in Hong Kong and the high seas outside Hong Kong, an overseas holding company will also allow the Group to project a better international



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## EXPLANATORY STATEMENT

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image to customers and business partners and will assist the Group in transforming from being perceived as a local group into an international group. Bermuda, one of the jurisdictions specified under the Listing Rules as an acceptable place of incorporation for overseas issuers, has been chosen by the Directors as the place of incorporation of the Newco in view of its political stability, common law legal system and growing importance of Bermuda as an international centre with an increasing number of international companies incorporated there.

**(ii) Reason for the Scheme**

*Protection of new assets to be acquired by the Group in future*

The reason for the Scheme is to protect new assets to be acquired by the Group in the future such that after completion of the Scheme, any new assets, businesses or funds that may be injected into or acquired by the Group will be directly held by the Newco or its newly formed subsidiaries and are therefore protected from any claims, if any, whether frivolous or not, that may be brought forward by others against the Company.

The Group experienced liquidity problem in 2002 owing to the consecutive loss making history of its Singapore construction arm and the likelihood of crystallization of certain material contingent liabilities against its Singapore construction arm. In addition, as mentioned in the circular of the Company dated 13th September, 2002, the Group and its construction business arm in Singapore were accountable for significant amounts of guarantees, capital commitments and various claims from its suppliers. As such, the Company implemented a debt restructuring arrangement which involved a management buy-out of its entire interest in the construction business arm in Singapore in September 2002. The remaining construction business of the Group was also disposed of by the Group in March 2004 as stated in the announcement of the Company dated 31st March, 2004.

As far as the Directors are aware, there are no potential or contingent creditors of the Company. However, out of abundance of caution, the Directors consider that as a result of the Scheme, any new investments of the Group can be free from all claims, if any, whether frivolous or not, against the Company.

The Directors consider that protection of assets to be acquired by the Newco would reduce the financial and operational risks of the Group. As a result, the Group would become more attractive to investors.

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## EXPLANATORY STATEMENT

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Based on the above, the Directors are of the view that the Scheme can enhance the investment value of the Group which in turn will benefit the Shareholders as a whole. Since the Group's long-term mission is to maximize its underlying investment value, the Directors consider that the implementation of the Scheme is in line with the Group's overall business objectives and is in the best interests to the Group and the Shareholders as a whole.

### 3. SUMMARY OF THE PROPOSED REORGANISATION

Under the Proposed Reorganisation, it is proposed that on the Effective Date:

- a) the Scheme Shares will be cancelled and extinguished and the authorised share capital of the Company will be reduced to HK\$100,000;
- b) in consideration for the cancellation and extinguishment of the Scheme Shares, the Shareholders will receive the Newco Shares (ranking *pari passu*), credited as fully paid on the basis of one Newco Share for every Scheme Share held;
- c) 10,000,000 new Shares will be allotted and issued simultaneously, credited as fully-paid, to the Newco such that the Company will become a wholly-owned subsidiary of the Newco;
- d) the credit arising in the books of account of the Company as a result of the cancellation and extinguishment of the Scheme Shares after paying up in full at par the 10,000,000 new Shares to be allotted and issued as described above will be transferred to the distributable reserve account of the Company;
- e) the amount standing to the credit of the share premium account of the Company, which amounted to approximately HK\$415.0 million as at the Latest Practicable Date, will be applied to set off all accumulated losses of the Company and the remaining credit thereof will be transferred to the distributable reserve account of the Company; and
- f) subject to the completion of sub-paragraphs a) to e) above, the Group's 55% interest in the Cruise Ship and the Group's interest in its existing tourists-related businesses will be distributed by the Company to the Newco or its nominee(s) by way of dividend in specie.

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## EXPLANATORY STATEMENT

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### 4. CONDITIONS OF THE PROPOSED REORGANISATION

The Proposed Reorganisation will become effective and binding on all holders of the Scheme Shares provided that each of the following conditions is satisfied on or before 31st December, 2004 or such later date as the Court may allow:

- (i) the Scheme being approved by a majority in number, representing three-fourths in value, of the Shareholders present and voting in person or by proxy at the Court Meeting;
- (ii) the Capital Reduction having been approved by the Shareholders by a special resolution at the EGM;
- (iii) the Scheme, with or without modification, being sanctioned and the proposed reduction of capital provided for in the Scheme and the Capital Reduction being confirmed by the Court, and an office copy of the Court order and the minute containing the particulars required by Section 61 of the Companies Ordinance being registered by the Registrar of the Companies in Hong Kong;
- (iv) the Listing Committee of the Stock Exchange granting the approval for the listing of, by way of introduction, and permission to deal in, the Newco Shares to be issued pursuant to the Scheme and any Newco Shares which may fall to be issued pursuant to the exercise of the Options to be granted under the Newco Share Option Scheme;
- (v) all necessary consents, approval and permissions from the relevant authorities in Bermuda for, inter alia, the issue of the Newco Shares pursuant to the Scheme and the exercise of Options to be granted under the Newco Share Option Scheme having been obtained; and
- (vi) all other necessary consents or authorisations which may be required under any existing contractual arrangements including loan and other finance documentation or regulatory requirements having been obtained.

As the implementation of the Scheme will render the Newco be treated as a new listing applicant and the Newco shall therefore be subject to, among other things, the relevant requirements set out in Rule 8.05 of the Listing Rules in respect of the track record, management and control requirements. Since the Company was making losses for the financial years ended 30th September, 2001 and 2002 and the management and the major Shareholders had changed since July 2003, it is envisaged that the Newco would not be able to meet the requirements as set out in Rule 8.05 of the Listing Rules. Therefore, the Newco has made an application to the Stock Exchange for a waiver from compliance with the requirements under Rule 8.05 of the Listing Rules.

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## **EXPLANATORY STATEMENT**

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As one of the effects of the Scheme is that the Company will be privatised and at the same time withdrawing its listing status on the Stock Exchange, the Scheme, if implemented, is subject to Rule 2.10 of the Takeovers Code which requires that (a) the Scheme is approved by at least 75% of the votes attaching to the disinterested shares that cast either in person or by proxy at a duly convened meeting of the holders of the disinterested shares; and (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested shares. The aforesaid voting requirements are considered to be more onerous than those imposed by the Companies Ordinance. As such, the Company has applied to and the SFC has granted a waiver from strict compliance with Rule 2.10 of the Takeovers Code on the basis that the economic interests of all Shareholders will not be affected.

The action necessary to make the Scheme effective will not be taken unless the Directors are satisfied that the Scheme has been duly approved and will become effective subject only to compliance with the relevant registration requirements and the listing of, and permission to deal in, the Newco Shares having been granted by the Listing Committee of the Stock Exchange.

It is expected that the Scheme will become effective on Wednesday, 27th October, 2004. If the Scheme shall not have become effective by 31st December, 2004, or such later date as the Court may allow, the Proposed Reorganisation will lapse. The Shareholders will be advised by a press announcement of the exact date upon which the Proposed Reorganisation becomes effective.

### **5. EFFECTS OF THE PROPOSED REORGANISATION**

#### **Financial position**

Implementation of the Proposed Reorganisation will not alter the business and the net assets/liabilities or financial position of the Group, other than the payment of expenses relating thereto, which is estimated to be approximately HK\$2.4 million.

It is expected that immediately after the implementation of the Proposed Reorganisation, an amount which is equal to the difference between the consolidated net assets of the Group and the aggregate nominal value of the Newco Shares to be issued pursuant to the Scheme will be credited to the contributed surplus in the books of the Newco. Based on the unaudited consolidated net assets of the Group of approximately HK\$75.01 million as at 31st March, 2004 and the aggregate nominal value of the Newco Shares of approximately HK\$15.77 million that will be issued pursuant to the Scheme, it is currently expected that approximately HK\$59.24 million will be credited to the contributed surplus in the books of the Newco upon implementation of the Scheme.

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## EXPLANATORY STATEMENT

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The credit standing to the contributed surplus account of the Newco will be distributable subject to the provisions of the Companies Act, which include a solvency test, and the by-laws of the Newco. The Directors have no present intention of making any distribution out of the contributed surplus account of the Newco after implementation of the Scheme.

### **Business**

The business and management of the Group will not be changed by reason only of the implementation of the Proposed Reorganisation. Immediately following the implementation of the Proposed Reorganisation, the Newco will act as the holding company of the Group and will continue to carry on the present business activities including (i) the leasing and management of the Cruise Ship; and (ii) other tourists-related businesses.

### **Ownership, voting control and management**

Upon implementation of the Proposed Reorganisation, ownership, voting control and management of the Group will remain the same and the interests of the Group in its subsidiaries will remain unchanged, save for the fact that the Group's 55% interest in the Cruise Ship and the Group's interest in its existing tourists-related businesses will be distributed by the Company to the Newco or its nominee(s) by way of dividend in specie.

As a result of the implementation of the Scheme, the Company will become a wholly-owned subsidiary of the Newco and all holders of the Scheme Shares will receive the Newco Shares on the basis of one Newco Share (ranking *pari passu*) for every Scheme Share held by them as at the Record Time. The proportionate interests of the Shareholders in the Newco will be the same as their proportionate interests in the Company immediately upon the implementation of the Scheme. In addition, each board lot for trading in the Newco Shares is proposed to be 20,000 Newco Shares, which is the same as that for the Shares and the nominal value of each Newco Share is HK\$0.01 which is the same as that of the Share.

### **Directors and employees**

The existing Directors will also be the directors of the Newco. No agreements or arrangements under which the emoluments or terms of service of any of the Directors nor the terms of service of any employees of the Group will be changed as a result of the implementation of the Proposed Reorganisation.

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## EXPLANATORY STATEMENT

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### Convertibles and share option scheme

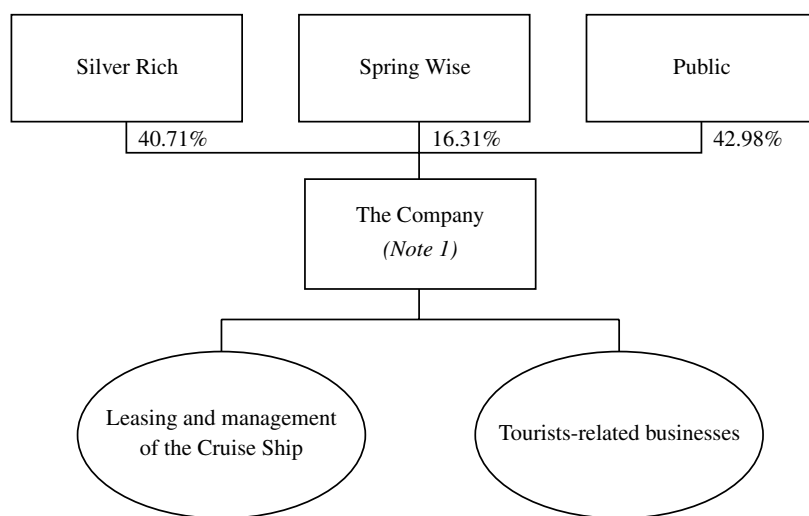
There are no outstanding convertibles issued by the Company as at the Latest Practicable Date. In addition, no share option has been granted by the Company under the Share Option Scheme. As part of the Proposed Reorganisation, the Company will terminate its Share Option Scheme and the Newco will adopt the Newco Share Option Scheme which will comply with the requirements of Chapter 17 of the Listing Rules.

### Dividends

It is intended that dividends on the Newco Shares will, as for the Shares, be paid in Hong Kong dollars. Similar to the case at present in relation to the Shares, dividends on the Newco Shares will likewise be free of any withholding tax under current Bermuda legislation.

## 6. SIMPLIFIED GROUP STRUCTURE IMMEDIATELY BEFORE AND AFTER THE PROPOSED REORGANISATION AND SHAREHOLDING STRUCTURE OF THE NEWCO

Set out below is the simplified structure of the Group and the shareholding structure of the Company immediately before the implementation of the Proposed Reorganisation:



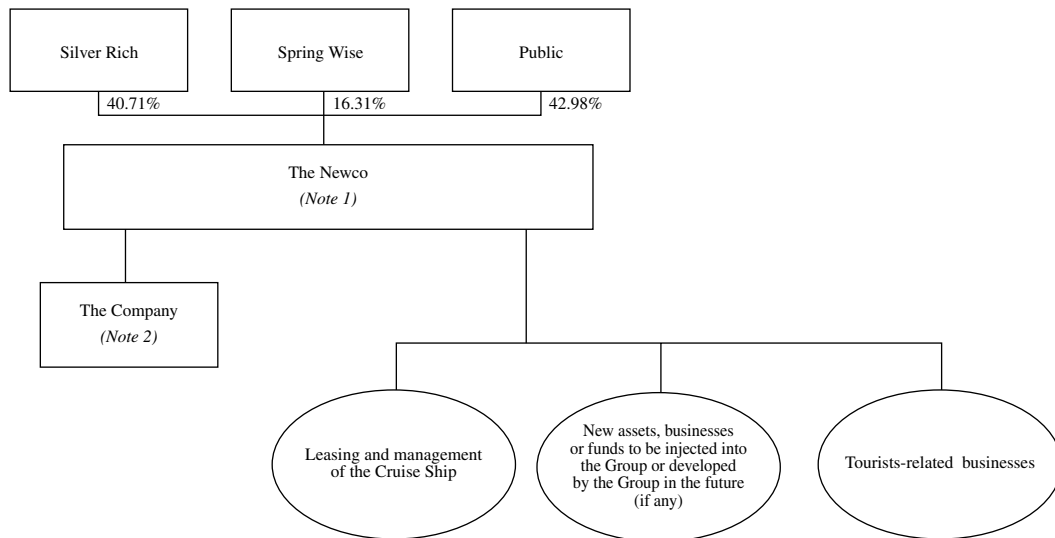
*Note 1: Listed on the main board of the Stock Exchange*

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## EXPLANATORY STATEMENT

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Set out below is the simplified structure of the Group, the Newco and their respective subsidiaries and the shareholding structure of the Newco immediately after the implementation of the Proposed Reorganisation:



*Notes:*

- 1. Newco will be listed on the main board of the Stock Exchange by way of introduction.*
- 2. The listing status of the Company on the Stock Exchange will be withdrawn and the Company will be the investment holding company of a group of dormant subsidiaries.*

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## EXPLANATORY STATEMENT

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Set out below is the respective shareholding structures of the Company and the Newco immediately before and after implementation of the Proposed Reorganisation:

	<b>Immediately prior to completion of the Proposed Reorganisation</b>	<b>Immediately after completion of the Proposed Reorganisation</b>
Silver Rich	approximately 40.71%, being 646,330,716 Shares	approximately 40.71%, being 646,330,716 Newco Shares
Spring Wise	approximately 16.31%, being 258,856,716 Shares	approximately 16.31%, being 258,856,716 Newco Shares
Public	approximately 42.98%, being 682,276,801 Shares	approximately 42.98%, being 682,276,801 Newco Shares
Total	100%, being 1,587,464,233 Shares	100%, being 1,587,464,233 Newco Shares



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## **EXPLANATORY STATEMENT**

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### **7. GENERAL MANDATES**

The Company, in its capacity as the sole legal and beneficial owner of the Newco, will grant to the Directors the following powers, subject to and conditional upon the Scheme becoming effective:

- (i) to allot, issue and deal with Newco Shares or convertible securities of the Newco or similar rights to subscribe for any Newco Shares or convertible securities of the Newco up to a maximum of 20% of the aggregate nominal amount of the share capital of the Newco in issue as at the Effective Date;
- (ii) to purchase on the Stock Exchange fully paid up Newco Shares up to a maximum of 10% of the aggregate nominal amount of the share capital of the Newco in issue as at the Effective Date; and
- (iii) to extend the Issue Mandate by an amount representing the aggregate nominal amount of the Newco Shares purchased by the Newco pursuant to the Repurchase Mandate.

Details of the General Mandates are set out in Appendix II to this document.

### **8. SHARE OPTION SCHEME**

The Company adopted the Share Option Scheme on 7th March, 2002. As at the Latest Practicable Date, no option was granted by the Company under the Share Option Scheme and the Company has no intention to grant new share option under the Share Option Scheme on or immediately prior to the date of the EGM. Subject to the Scheme becoming effective, the Share Option Scheme will be terminated.

The Company, in its capacity as the sole legal and beneficial owner of the Newco, has conditional upon the Scheme becoming effective, adopted the Newco Share Option Scheme, which will permit the grant of options to the Eligible Participants to subscribe for the Newco Shares. A summary of the principal terms of the Newco Share Option Scheme is set out in Appendix II to this document and the rules of the Newco Share Option Scheme is available for inspection as mentioned in the section headed “Documents available for inspection” in Appendix V to this document.

### **9. MEMORANDUM OF ASSOCIATION AND BYE-LAWS**

Copies of the memorandum of association and the bye-laws of the Newco are available for inspection as mentioned in the section headed “Documents available for inspection” in Appendix V to this document. A summary of certain relevant parts of the memorandum of association and the bye-laws of the Newco is set out in Appendix II to this document.

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## EXPLANATORY STATEMENT

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### 10. LEGAL CONSIDERATIONS

In respect of the differences between the laws of Hong Kong and those of Bermuda, the Directors are of the view that, save for those legal considerations set out below, such differences as may arise between the laws of these two jurisdictions as a result of the implementation of the Scheme are immaterial from the point of view of the Group and the Shareholders generally.

The Company is incorporated in Hong Kong whereas the Newco is incorporated in Bermuda. The laws of Bermuda, including the Companies Act, will therefore apply to the Newco. As long as the Newco has a place of business in Hong Kong or the Newco Shares are listed on the main board of the Stock Exchange, certain laws of Hong Kong, particularly those governing “overseas companies” in Part XI of the Companies Ordinance, and the Listing Rules as well as the Takeovers Code will also be applicable to the Newco. Newco Shares will give the same rights as those attaching to the Shares.

The difference between the laws of Hong Kong and those of Bermuda may result in differences in the practicality and cost to the Newco Shareholders of enforcing their rights between the two jurisdictions if such steps become necessary. On the whole, with the exception of the remedy under Section 168A of the Companies Ordinance which provides that any member of a company incorporated in Hong Kong may apply for relief under this section on the ground that the affairs of the company are being or have been conducted in a manner which is unfairly prejudicial to the interests of the members generally or of some part of the members (including himself) and the court may make any order as it thinks appropriate, including, among other things, (i) an order regulating the affairs of the company in the future; (ii) an order providing for the other members of the company or for the company itself to buy the shares of any member; or (iii) an order altering the company’s memorandum and articles of association, the other remedies for shareholders’ protection such as the winding up of a company on the just and equitable ground or the institution of a derivative action may be commenced in Hong Kong against a company such as the Newco. Accordingly, the rights of the Shareholders will not be jeopardised. Nevertheless, the Newco Shareholders should be aware of the application of Bermuda law to the Newco and of the fact that, however remote, circumstances may arise in which the Newco may cease to be subject to the laws of Hong Kong or to the Listing Rules if the Newco Share are de-listed from the Stock Exchange. **The Shareholders are advised to consult their own legal advisers if they are in any doubt as to the effect of Bermuda company law on their rights in the light of circumstances peculiar to them.**

Moreover, whilst Bermuda legislation enables capital reduction based on shareholders’ approval and the company being able to pay its liabilities as they fall due, the Companies Ordinance requires the confirmation of the reduction by the Court, which must be satisfied that, among other things, all the shareholders are treated equitably in the reduction and the interests of the creditors are protected.

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## EXPLANATORY STATEMENT

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By the rules applicable to conflict of laws in Hong Kong, the capacity of a corporation to enter into any legal transaction is governed both by the constitution of the corporation and by the law of the country which governs the transaction. In addition, all matters concerning the constitution of a company, which include its internal management involving the exercise of powers by its officers, are also governed by the law of its place of incorporation. Due to the application of English common law principles in Bermuda and the substantial similarities between the Companies Act and the Companies Ordinance, the Board has been advised that in general, that part of Bermuda law applicable to these issues is not dissimilar to that in Hong Kong.

Generally, under conflict of laws principles in Hong Kong, the law applicable to the fixed assets of a company will be that of the country in which they are situated. The law applicable to business contracts is subject to a number of different factors, including any agreement between the parties as to the applicable law. For commercial purposes, there can be advantages or disadvantages according to the applicable law in respect of any given asset or contract. When causing the Newco to enter into such contracts, as required by Bermuda law, the directors of the Newco will have to act in good faith in the interests of the Newco and the Newco Shareholders as a whole.

### 11. STOCK EXCHANGE LISTING AND DEALINGS

Application has been made by the Newco to the Listing Committee of the Stock Exchange for the granting of the listing of, by way of introduction, and permission to deal in, the Newco Shares in issue and to be issued pursuant to the Scheme and any Newco Shares (not, in aggregate, exceeding 10% of the issued share capital of the Newco upon the listing of the Newco on the main board of the Stock Exchange) which may fall to be issued upon the exercise of the options to be granted under the Newco Share Option Scheme and application will also be made to the Stock Exchange for the simultaneous withdrawal of the listing of the Shares, in both cases subject to the Scheme becoming effective.

Upon the Scheme becoming effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Newco Shares in issue and to be issued pursuant to the Scheme and any Newco Shares falling to be issued pursuant to the exercise of the Options will be listed on the main board of the Stock Exchange.

**The Directors currently expect the dealings of the Shares on the Stock Exchange will be ceased from 4:00 p.m. on Monday, 18th October, 2004 and the listing of the Shares on the Stock Exchange will be withdrawn at the close of business on Wednesday, 27th October, 2004. Dealing in the Newco Shares is expected to commence on Thursday, 28th October, 2004.**

Subject to the granting of the listing of, and permission to deal in, the Newco Shares on the main board of the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Newco Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Newco Shares

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## EXPLANATORY STATEMENT

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on the main board of the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the securities of the Newco to be admitted into CCASS.

Dealings in the Newco Shares in issue and to be issued pursuant to the Scheme and any Newco Shares (not, in aggregate, exceeding 10% of the issued share capital of the Newco upon the listing of the Newco on the main board of the Stock Exchange) which may fall to be issued upon the exercise of the Options will be subject to the payment of stamp duty in Hong Kong if they are kept on the branch register of members of the Newco that will be maintained in Hong Kong.

### **12. SHARE CERTIFICATES**

Under the Scheme, each share certificate for the Scheme Shares validly subsisting as at the Record Time will, subject to the Newco having despatched the certificates for the Newco Shares falling to be allotted and issued under the Scheme to the persons entitled thereto, cease to be valid for all purposes as a share certificate for the Scheme Shares. Share certificates representing the appropriate number of the Newco Shares, in registered form, will be issued at the expense of the Newco to the holders of Scheme Shares whose names appear on the register of members of the Company as at the Record Time or such other persons entitled thereto.

It is expected that share certificates of the Newco Shares will be posted to the persons entitled thereto at their own risk. Share certificates for the Newco Shares will be posted to them at their respective registered addresses (or in the case of joint holders, at the address of that joint holder whose name stands first on the register of members of the Company in respect of joint holding).

The existing share certificates for the Shares are brown in colour. In order to distinguish between the existing and new share certificates, share certificates for the Newco Shares will be grey in colour.

**Shareholders should note that the last day of dealings in the Shares is expected to be on Monday, 18th October, 2004 and the latest time for lodging forms of transfer of Shares in order to be entitled to the Newco Shares is expected to be on 4:30 p.m. on Thursday, 21st October, 2004. Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.**

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## EXPLANATORY STATEMENT

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### 13. REGISTRATION PROCEDURES AND INSTRUCTIONS TO THE COMPANY

Subject to the provisions of the Companies Act, the principal register of members of the Newco will be maintained in Bermuda by Butterfield Fund Services (Bermuda) Limited at 65 Front Street, Hamilton, Bermuda and a branch register of members of the Newco will be maintained in Hong Kong by Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Unless the Directors otherwise agree, all transfers of, and other documents of title to, the Newco Shares must be lodged for registration with, and registered by, the branch share registrar and the transfer office of the Newco in Hong Kong and may not be lodged for registration with, nor registered by, the Newco's principal share registrar in Bermuda.

A valid instrument of transfer relating to a transfer of the Shares executed before the Effective Date but not registered in the register of members of the Company before that date shall, on or after the issue of the Newco Shares pursuant to the Scheme, be deemed to be a valid instrument of transfer in respect of the same number of the Newco Shares.

**Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.**

### 14. TAXATION, STAMP DUTY AND EXCHANGE CONTROL

#### **The Newco**

Under present Bermuda law, there is no Bermuda tax on income, profits or withholding tax or dividends, or capital gains tax or capital transfer tax payable by the Newco on its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to the Newco Shares, debentures or other obligations of the Newco. The Minister of Finance of Bermuda has given an assurance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 28th March, 2016, be applicable to the Newco or on any of its operations, or on the Newco Shares, debentures or other obligations of the Newco except that this assurance will not prevent the imposition of any Bermuda tax or duty payable in relation to any land in Bermuda leased to the Newco or to persons ordinarily resident in Bermuda.

The transactions of the Newco are also exempt from all stamp duties in Bermuda subject to certain minor exceptions.

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## EXPLANATORY STATEMENT

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The Newco will, however, be liable to an annual government fee payable to the Bermuda government. The fee is calculated by reference to a sliding scale and based upon the amount of the Newco's authorised share capital and share premium account. A maximum fee of US\$27,825 will be payable by the Newco if the aggregate of its authorised share capital and share premium exceed US\$500,000,000.

Although incorporated in Bermuda, the Newco has been designated as a non-resident in Bermuda for exchange control purposes by the Bermuda Monetary Authority. Accordingly, the Newco may convert currency (other than Bermudian currency) held for its account to any other currency without restriction.

An application will be submitted to the Bermuda Monetary Authority for permission for, among other things, the issue of the Newco Shares pursuant to the Scheme and any Newco Shares up to the amount of the Newco's authorised share capital from time to time to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that Newco Shares are listed on the Stock Exchange. It is anticipated that such permissions will be obtained prior to the Effective Date. In granting such permission the Bermuda Monetary Authority does not accept any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this document. Any further issue of the Newco Shares in excess of the amount already approved will require prior written consent of the Bermuda Monetary Authority. Issues and transfers involving persons regarded as residents in Bermuda for exchange control purposes require specific authorisation under the Exchange Control Act 1972 of Bermuda.

The Directors have been advised that implementation of the Proposed Reorganisation will not, of itself, result in the Newco or the Group incurring a greater liability for tax than would have been incurred by the Group had the Proposed Reorganisation not been implemented, other than in respect of the annual government fee payable to the Bermuda government by the Newco. It is emphasised that the taxation implications of the Proposed Reorganisation are a matter for the Shareholders themselves and not for the Company, the Newco, their respective directors or any other parties involved in the Proposed Reorganisation, none of whom accepts any responsibility for any taxation effect on or liabilities of the Shareholders arising from the implementation of the Proposed Reorganisation, other than in respect of the annual government fee payable to the Bermuda government by the Newco.

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## EXPLANATORY STATEMENT

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### Shareholders

#### (i) *Bermuda*

No Bermuda stamp duty will be levied on the transfer of the Newco Shares.

Under present Bermuda law, there is no Bermuda withholding tax on dividends or other distributions, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to the Newco Shares, debentures or other obligations of the Newco, save for residents of Bermuda. Furthermore, as stated in the sub-paragraph headed “The Newco” above, an assurance has been received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 of Bermuda that no such tax shall be applicable to the Newco Shareholders until 28th March, 2016, save for persons ordinarily resident in Bermuda.

An application will be submitted to the Bermuda Monetary Authority requesting permission for the transfer of the Newco Shares between persons regarded as non-residents of Bermuda for exchange control purposes without specific consent under the Exchange Control Act 1972 of Bermuda and regulations made thereunder for so long as the Newco Shares are listed on the main board of the Stock Exchange. It is expected that such permission will be obtained prior to the Effective Date. Issues and transfers of the Newco Shares involving any person regarded as a resident in Bermuda for exchange control purposes require specific prior authorisation under the Exchange Control Act 1972 of Bermuda.

#### (ii) *Hong Kong*

The Directors have been advised that, under current legislation, implementation of the Proposed Reorganisation is not expected, of itself, to have any adverse Hong Kong tax consequences, except that those persons who are classified for tax purposes as dealers in securities may be subject to profits tax in respect of any deemed profits which may arise from the substitution of the Newco Shares for the Shares pursuant to or in connection with the Proposed Reorganisation, based on the difference between the market value of the Newco Shares on the Effective Date and the market value of the Scheme Shares at the Record Time.

Dealings in the Newco Shares registered on the Newco’s Hong Kong branch register of members will be subject to Hong Kong stamp duty and Hong Kong estate duty.

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## EXPLANATORY STATEMENT

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*(iii) General*

**The Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposed Reorganisation and, in particular, whether the receipt of the Newco Shares or, the substitution of the Newco Shares for the Shares would make such Shareholders liable to taxation in Hong Kong or in other jurisdictions, as the case may be. It is emphasised that none of the Company, the Newco, any of their respective directors or any other party involved in the Proposed Reorganisation accepts any responsibility for any taxation effect on or liabilities of the Shareholders in connection with the Proposed Reorganisation in Hong Kong or any other jurisdictions.**

### 15. MEETINGS

In accordance with the direction of the Court, the Court Meeting will be convened for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme.

The EGM will be held immediately following the Court Meeting to approve, inter alia, the Scheme, the Capital Reduction and the implementation thereof.

The Court Meeting and the EGM will be held at 10:00 a.m. and 10:15 a.m. respectively on Monday, 27th September, 2004 (or so soon thereafter as the Court Meeting shall have been concluded or adjourned) at Units 1002-05A, 10th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. Notices of the Court Meeting and the EGM are set out on pages 186 to 190 of this document.

### 16. PROCEDURES TO DEMAND A POLL BY THE SHAREHOLDERS AT THE EGM

According to the articles of association of the Company, a poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or



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## **EXPLANATORY STATEMENT**

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- (d) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

### **17. RECOMMENDATIONS**

Having taken into account the reasons for implementing the Proposed Reorganisation as set out in the “Letter from the Board” in this document and in this Explanatory Statement, the Board considers that the Proposed Reorganisation is in the best interests of the Group and the Shareholders as a whole and the Board unanimously recommends the Shareholders to vote in favour of the resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Scheme and the Capital Reduction respectively.

### **18. ACTIONS TO BE TAKEN**

Different forms of proxy for use at the Court Meeting and the EGM are enclosed. The white form of proxy is for use at the Court Meeting and the yellow form of proxy is for use at the EGM.

Shareholders are requested to complete and return the enclosed white and yellow forms of proxy in accordance with the instructions printed thereon respectively, whether or not they are able to attend and vote at the relevant meeting(s) in person, to the office of the Company’s share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the respective times appointed for holding the meetings or any adjourned meeting thereof (as the case may be). The duly completed white form of proxy for the Court Meeting may alternatively be handed to the chairman of the Court Meeting at that meeting. Completion and return of the relevant form of proxy will not preclude a Shareholder from attending and voting in person at the relevant meeting should he/she so wishes. In that event, his/her form of proxy for that meeting will be deemed to have been revoked.

### **19. ADDITIONAL INFORMATION**

Your attention is drawn to the Appendices to this document which form part of this Explanatory Statement.

## 1. PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) the leasing and management of the 55% owned Cruise Ship; and (ii) other tourists-related businesses. The Cruise Ship, namely “Macau Success”, 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, classified into standard cabins and VIP cabins to cater for the different needs of the passengers. The primary area of operations of the Cruise Ship is in Hong Kong and the high seas near but outside Hong Kong. The on-board cruise activities, services and amenities on the Cruise Ship include restaurants, bars, discos and karaoke, mahjong, beauty salons, massage facilities, retail shopping and casino activities. As per the management services agreement dated 12th January, 2004 entered into between Hover HK and the Cruise Operator for a term of 3 years commencing from 12th January, 2004, Hover HK is responsible for the administration and management of the daily operations of the Cruise Ship, including but not limited to 1) mooring and unmooring services in the waters of Hong Kong; 2) pilotage services in the waters of Hong Kong; 3) recruitment of the crew members; and 4) the aforementioned on-board cruise activities, save for the operations of the on-board casino, which is operated by the Cruise Operator under the Bareboat Charter. In order to comply with the relevant 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 casino activities are carried out.

The Group’s tourists-related businesses include 1) business in entertainment industry such as the management of on-board cruise activities for tourists in the Cruise Ship; and 2) business in services industry such as the travel agency business carried out by a wholly-owned subsidiary of the Company, Travel Success, which is mainly targeted at corporate customers. Travel Success is operated through an outlet located in Shun Tak Centre, Hong Kong which provides i) worldwide air/sea transportation reservations and ticketing; ii) worldwide hotel reservations; and iii) selling of holiday packages for the Cruise Ship and other destinations, including Asian, European and American regions.

## 2. SHARE CAPITAL

### (a) Authorised and issued capital

As at the close of business on the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>160,000,000,000</u>	Shares	<u>1,600,000,000.00</u>
<i>Issued and fully paid:</i>		
<u>1,587,464,233</u>	Shares	<u>15,874,642.33</u>

All the Shares presently in issue are fully paid or credited as fully paid and rank pari passu in all respects with each other, including as to dividends, voting rights and return of capital or other distributions that may be declared, paid or made.

**(b) Changes in share capital of the Company**

The following changes in the share capital of the Company have taken place within the two years preceding the date of this document:

- (i) On 6th February, 2003, a special resolution was passed at an extraordinary general meeting of the Company, pursuant to which and with the sanction of an order of the Court dated 21st May, 2003, upon the consolidation of every ten ordinary shares of HK\$0.40 each in the capital of the Company into one ordinary share of HK\$4.00 each, the paid up capital of the Company was reduced from HK\$1,600,000,000.00 divided into 400,000,000 ordinary shares of HK\$4.00 per share to HK\$4,000,000.00 divided into 400,000,000 ordinary shares of HK\$0.01 per share by the cancellation of HK\$3.99 of the paid up capital on each share (the “2003 Capital Reduction”). After the 2003 Capital Reduction and based upon the number of issued shares of the Company as at 21st May, 2003, an amount of approximately HK\$594,766,000 standing to the credit of the share capital account of the Company was applied to eliminate part of the accumulated losses of the Company. Upon the 2003 Capital Reduction becoming effective on 2nd June, 2003, the authorised share capital of the Company was increased from HK\$4,000,000.00 to HK\$1,600,000,000.00 by the creation of an additional 159,600,000,000 ordinary shares of HK\$0.01 each.
- (ii) Pursuant to a subscription agreement dated 20th May, 2003 and a supplemental agreement dated 10th June, 2003 entered into between the Company and Silver Rich, Spring Wise and Leader Assets Limited (collectively the “Subscribers”), the Subscribers had subscribed for an aggregate of 1,043,200,000 new Shares at HK\$0.0671 per Share on 25th July, 2003.
- (iii) Pursuant to a placing agreement dated 20th May, 2003, a supplemental agreement dated 10th June, 2003 and a second supplemental agreement dated 30th July, 2003 all entered into between the Company and Tai Fook Securities Company Limited, 298,000,000 new Shares at HK\$0.0671 per Share were placed to not less than six independent investors on 31st July, 2003.

- (iv) Pursuant to a placing agreement dated 3rd November, 2003 and a supplemental agreement dated 17th November, 2003 entered into between the Company and Tai Fook Securities Company Limited, 97,200,000 new Shares at HK\$0.4325 per Share were placed to not less than six independent investors on 17th November, 2003.

**(c) Changes to the issued capital of the Company's subsidiaries**

The following alterations in the capital of the Company's subsidiaries have taken place within the two years preceding the date of this document:

- (i) On 5th August, 2002, Favour Smart Limited ("Favour Smart") allotted and issued 1 new share of US\$1.00 each to Sum Cheong Corporation Limited. The Company indirectly held and still holds 100% interest in the issued share capital of Favour Smart after this allotment.
- (ii) On 29th September, 2003, Macau Success Management Services Limited ("MSMSL") allotted and issued 98 new shares of HK\$1.00 each to the Company. The Company held and still holds 100% interest in the issued share capital of MSMSL after this allotment.
- (iii)
  - (a) On 16th October, 2003, Travel Success allotted and issued 9,998 new shares of HK\$1.00 each to the Company. The Company held and still holds 100% interest in the issued share capital of Travel Success after this allotment.
  - (b) On 20th October, 2003, Travel Success increased its authorised capital from HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each to HK\$500,000.00 divided into 500,000 shares of HK\$1.00 each.
  - (c) On 22nd October, 2003, Travel Success allotted and issued 490,000 new shares of HK\$1.00 each to the Company. The Company held and still holds 100% interest in the issued share capital of Travel Success after this allotment.
- (iv) On 6th November, 2003, Hover HK allotted and issued 98 new shares of HK\$1.00 each to Hover BVI. These shares were transferred from Hover BVI to Capture Success on 10th March, 2004. The Company indirectly held and still holds 55% interest in the issued share capital of Hover HK after this transfer.

- (v) On 20th November, 2003, Access Success Developments Limited (“Access Success”) allotted and issued 1 new share of US\$1.00 each to the Company. The Company held and still holds 100% interest in the issued share capital of Access Success after this allotment.
- (vi) On 29th December, 2003, Capture Success allotted and issued 100 new shares of US\$1.00 each as to 55 shares to Access Success; as to 30 shares to Summit Global International Limited (“Summit Global”) and as to 15 shares to Mantovana Holdings Limited (“Mantovana”), representing 55%, 30% and 15% respectively of the issued share capital of Capture Success. Both Summit Global and Mantovana and their respective ultimate beneficial owners are Independent Third Parties.
- (vii) On 2nd January, 2004, Golden Sun Profits Limited (“Golden Sun”) allotted and issued 1 new share of US\$1.00 each to the Company. The Company held and still holds 100% interest in the issued share capital of Golden Sun after this allotment.
- (viii) On 6th January, 2004, World Fortune Limited (“World Fortune”) allotted and issued 98 new shares of HK\$1.00 each to Golden Sun. The Company indirectly held and still holds 100% interest in the issued share capital of World Fortune after this allotment.
- (ix) On 9th March, 2004, Top Region Assets Limited (“Top Region”) allotted and issued 1 new share of US\$1.00 each to Access Success. The Company indirectly held and still holds 100% interest in the issued share capital of Top Region after this allotment.
- (x) On 17th March, 2004, Precise Innovation Limited (“Precise Innovation”) allotted and issued 1 new share of US\$1.00 each to the Company. The Company held and still holds 100% interest in the issued share capital of Precise Innovation after this allotment.

Save as disclosed in this section, within the two years immediately preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries had been issued or was proposed to be issued for cash or otherwise and no commissions, discounts or other special term had been granted by the Company in connection with the issue or sale of any such capital. None of the issued share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

Save as disclosed in this section, there was no alteration in the capital of any member of the Group within the two years immediately preceding the date of this document.

**(d) Listing**

All the existing Shares in issue are listed on the main board of the Stock Exchange. No part of the securities of the Company is listed on or dealt in, nor is any listing of, or permission to deal in, the securities of the Company being or proposed to be sought on, any other recognised stock exchange.

**3. INDEBTEDNESS**

As at the close of business on 30th June, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, apart from intra-group liabilities, no member of the Group as at the close of business on 30th June, 2004 had any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans, debt securities or other similar guarantees or other material contingent liabilities.

**4. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Group generally finances its operations with internally generated resources.

**Borrowings and banking facilities**

Save as disclosed in paragraph 3 headed “Indebtedness” above, as at 30th June, 2004, the Group did not have any outstanding borrowings, loans, finance leases or hire purchase payables.

**Commitments and contingent liabilities**

As at 30th June, 2004, the Group had no capital commitments or material commitments or material contingent liabilities.

**5. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the present internal resources of the Group, the Group has sufficient working capital to satisfy its present requirements for at least the next 12 months from the date of this document.

**6. EMPLOYEES**

As at the Latest Practicable Date, the Group had approximately 300 full-time employees.

**7. MATERIAL ADVERSE CHANGES**

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 30th September, 2003, being the date to which the latest published audited financial statements of the Company were made up.

**8. RULES 13.13 TO 13.19 OF THE LISTING RULES**

The Directors have confirmed that they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules as at the Latest Practicable Date.

**9. MAJOR CUSTOMERS AND SUPPLIERS**

For the fifteen months ended 30th September, 2001, the five largest customers of the Group accounted for 84.5% of the Group's total turnover of which the largest customer accounted for approximately 45.1% and the five largest suppliers of the Group accounted for 43.8% of the Group's total purchases, of which the largest supplier accounted for approximately 19.0%.

For the financial year ended 30th September, 2002, the five largest customers of the continuing operations of the Group accounted for 57.6% of the total turnover of the continuing operations of the Group of which the largest customer accounted for approximately 30.7% and the five largest suppliers of the continuing operations of the Group accounted for 22.1% of the total purchases of the continuing operations of the Group, of which the largest supplier accounted for approximately 14.8%.

For the financial year ended 30th September, 2003, the five largest customers of the continuing operations of the Group accounted for 46.8% of the total turnover of the continuing operations of the Group of which the largest customer accounted for approximately 23.7% and the five largest suppliers of the continuing operations of the Group accounted for 31.6% of the total purchases of the continuing operations of the Group, of which the largest supplier accounted for approximately 12.7%.

As far as the Directors are aware, none of the directors, chief executives or the substantial shareholders of the Company or any of its subsidiaries (including the Newco) or their respective associates has any interest in any of the five largest customers and suppliers of the Group for each of the three financial periods/years ended 30th September, 2003.

**10. FINANCIAL AND TRADING PROSPECTS OF THE GROUP****Trading prospects**

Construction and retail had been the Group's principal businesses all along. Although the property market had been picked up and the property prices had gradually increased during the fourth quarter of 2003 and the first quarter of 2004, the Directors were of the view that the outlook of the Group's construction business was not promising as the intense and cutthroat-price competitions had exerted tremendous pressure on the tender prices of the construction projects in Hong Kong. Besides, the unemployment rate in Hong Kong remained high which might have a negative impact on Hong Kong property market in the long run. As such, on 26th March, 2004, the Group disposed of its entire interest in the construction business, and details of which was disclosed in the announcement of the Company dated 31st March, 2004.

Since the commencement of the Cruise Ship leasing business in mid-January 2004, the unaudited profits contribution by the operation of the department store owned as to 60% by the Group had gradually diminished to approximately 6.9% of the Group's total unaudited profits for the three months ended 30th June, 2004. In addition, the Directors noticed that the net profit margin of the operation of the department store was only around 5% whereas the Cruise Ship leasing business achieved a much higher net profit margin. The Directors also considered that the operating costs of the retail business in the format of department store in Hong Kong would continue to be driven up because of the expected increase in rental expense. As such, the Group disposed of its 60% equity interest in the department store in June 2004.

In order to diversify its business, the Group set up Travel Success to develop the tourists-related business in October 2003. In addition, the Group acquired 55% interest in the Cruise Ship and its inventories at a total consideration of approximately HK\$52.0 million in January 2004. Upon completion of the aforesaid acquisition, the name of the Cruise Ship was changed to "Macau Success". The Cruise Ship has been leased to the Cruise Operator for a period of 36 months from 12th January, 2004 at a fixed monthly charter payment of HK\$2.5 million and a variable payment of 15% of the aggregate monthly revenues generated by the Cruise Ship, which percentage may be adjusted upward to not more than 25% if the revenues are more than HK\$20 million per calendar month.



Following the implementation of a series of measures to boost the economy by the Hong Kong government, coupled with the execution of the “Individual Visit Scheme” by the PRC government starting from July 2003, the local tourism and retail industries have significantly revived. The opening of Hong Kong Disneyland in 2005, the transformation of Macau into “Asia Las Vegas” after the issuance of more casino-operating licences by the Macau Government and the development of HK-Zhuhai-Macau Bridge would further boost the entertainment and tourism industries. With the solid and encouraging performance and results of the existing tourists-related and cruise businesses, the Group remains conservatively optimistic towards the future prospects of the Group. As disclosed in the interim report of the Company for the six months ended 31st March, 2004, the operating profits contributed by the Group’s existing tourists-related and the Cruise Ship leasing businesses during such period amounted to approximately HK\$11 million. As the performance of all current core businesses under the Group are satisfactory, the Group will strategically focus on the development of the tourists-related and cruise businesses and at the same time, will capture the growth and further explore and, when opportunities arise, invest in new business with good potential in Hong Kong and Macau. As stated in the unaudited interim report of the Company for the six months ended 31st March, 2004, one of the potential markets identified by the Directors for the Group’s future business development is the property market of Macau. With the growing living standard in Macau, the Group foresees very positive potential in the property market of Macau with growing demand for quality living environments. Leveraged on the experience of Mr. Yeung in the property-related businesses, the Company may consider diversifying into the property market in Macau when opportunities arise in the future.

The Directors are of the view that the disposal of all construction-related and retail businesses enable the Group to re-divert its management resources to the development of its tourists-related and Cruise Ship leasing and management businesses and at the same time, to capture the growth and further explore and, when opportunities arise, invest in new business with good potential in Hong Kong and Macau.

The management of the Group is committed to enhance the Shareholders’ value by implementing strategic developments and plans to diversify the Group’s businesses in the upcoming year, leveraged on the expertise and experience of the management in respect of corporate development and Mr. Yeung’s experience in the travel agency business. The Group is dedicated to capitalize on the reviving economy of Hong Kong and Macau and the growing affluence in the PRC.

## 1. INTRODUCTION

The Newco was incorporated in Bermuda on 27th May, 2004 as an exempted company with limited liability under the Companies Act. The Newco has established a place of business in Hong Kong at Units 1002-05A, 10th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong and will be registered in Hong Kong as an overseas company under Part XI of the Companies Ordinance prior to the Court Meeting. In compliance with the requirements of the Companies Ordinance, Mr. Lee Siu Cheung and Ms. Chiu Nam Ying, Agnes will be appointed as the authorised representatives of the Newco for the acceptance of service of process and any notice required to be served on the Company in Hong Kong. As the Newco is incorporated in Bermuda, it operates subject to laws of Bermuda and to its constitution, which comprises the memorandum of association and the bye-laws. It has not carried on any business since the date of its incorporation. Upon the implementation of the Scheme, the Newco will act as the holding company of the Group, which will continue to carry on its present business activities.

## 2. DIRECTORS, COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

The particulars of the Directors upon completion of the Proposed Reorganisation are set out below:

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Yeung Hoi Sing, Sonny	No. 50 Repulse Bay Road Hong Kong	Chinese
Mr. Chan William	Flat B1 & Roof, 5th Floor, Park Court 17 Kai Fat Path, Tuen Mun New Territories	Chinese
Mr. Lee Siu Cheung	Flat G, 39th Floor, Block 4 Well On Garden 9 Yuk Nga Lane Tseung Kwan O Kowloon Hong Kong	Chinese
<i>Non-executive Director</i>		
Mr. Choi Kin Pui, Russelle	Flat 1A Block 10 Beverly Villa 16 La Salle Road Kowloon	Canadian

*Independent non-executive Directors*

Mr. Luk Ka Yee, Patrick	Flat C, 27th Floor, Tower 16 Hoi Tsui Mansion, Rivera Gardens Nos. 2-12, Yi Lok Street, Tsuen Wan New Territories	Chinese
Mr. Yim Kai Pung	A3, 3rd Floor, Chermain Heights 9 Eastbourne Road Kowloon Tong Kowloon	Chinese
Ms. Yeung Mo Sheung, Ann	2E, Tower 4 Greenwood Terrace Chai Wan Hong Kong	Chinese

**Executive Directors**

*Mr. Yeung Hoi Sing, Sonny*, aged 50, joined the Company in 2003 as executive Director and chairman of the Company. He is responsible for the overall corporate planning and business development of the Group. Mr. Yeung has been the member of the Chinese People's Political Consultative Conference, the PRC since 1993 and has over 20 years of experience in finance industry in Hong Kong. Prior to joining the Company, Mr. Yeung held managerial roles in several financial service sectors such as leveraged foreign exchange trading; and securities and futures brokerage. He is presently the sole beneficial owner of Young Champion Securities Limited, which is a licensed corporation under the SFO and is also a participant of the Stock Exchange, principally engaged in the provision of securities brokerage services. Mr. Yeung also has certain private investments in travel agency businesses in the US and Canada and property development businesses in Hong Kong and Canada.

*Mr. Chan William*, aged 29, joined the Company in 2003 as executive Director. He obtained a Diploma in Legal Studies in June 1995 from The University of Hong Kong (SPACE) and a Master degree of Business Administration in March 2002 from University of La Verne in the US. Mr. Chan is a director of Tung Wah Group of Hospitals (2003/2004), the Current Advisor of Yan Chai Hospital 36th Term Board of Directors, the Divisional Senior Vice President of Hong Kong St. John Ambulance Brigade Headquarters Command, a member of Sheung Wan and Sai Ying Pun Area Committee (2004/2006) and a member of Hong Kong Chiu Chow Chamber of Commerce. Before joining the Company, he was an accounts manager of Young Champion Securities Limited from 2001 to July 2003.

*Mr. Lee Siu Cheung*, aged 39, joined the Company in 2003 as executive Director. Mr. Lee is a member of Hong Kong Institute of Architects and an Authorized Person (List of Architects). He has over 15 years of experience in the architectural industry and has worked for a number of architects companies in Hong Kong. Before joining the Company, Mr. Lee was a consultant of a real estate project management company responsible for project management.

#### **Non-executive Director**

*Mr. Choi Kin Pui, Russelle*, aged 49, joined the Company in 2003 as independent non-executive Director and has been re-designated as non-executive Director in March 2004. Mr. Choi graduated from St. Pius X High School in 1976. He has over 10 years of management experience in the telecommunication industry in Hong Kong and the US. Mr. Choi established Elephant Talk Limited in 1994, a wholly-owned subsidiary of Elephant Talk Communications Inc. (“ETCI”). ETCI is a company incorporated in the US with limited liability and is engaging in the provision of telecommunications services in Hong Kong and in the US. Mr. Choi is responsible for the overall strategy of ETCI, and is appointed as president and chief executive officer of ETCI. Mr. Choi also serves as chairman of ET Network Services Limited, a company incorporated in Hong Kong with limited liability and is engaging in the provision of internet access and outsourcing services in the PRC and Hong Kong.

#### **Independent non-executive Directors**

*Mr. Luk Ka Yee, Patrick*, aged 43, joined the Company in 2003 as independent non-executive Director. Mr. Luk took his Law Degree in England in 1986. Throughout his tenure of career, Mr. Luk has been appointed to serve in various senior management positions which involved in corporate/legal and property development as well as property management aspects. He is at present being the consultant to Pacific Rich Management and Consultants Limited, a company providing property and facilities management in Hong Kong.

*Mr. Yim Kai Pung*, aged 39, joined the Company in 2004 as independent non-executive Director. Mr. Yim holds a Bachelor degree of Accountancy with honours from City University of Hong Kong in 1993 and is an associate member of Hong Kong Society of Accountants and a fellow member of Association of Chartered Certified Accountants of the United Kingdom. He has over 15 years of experience in auditing listed companies both in Hong Kong and the PRC. Mr. Yim is presently a sole proprietor of David Yim & Co., an audit firm principally developing in the PRC market.

*Ms. Yeung Mo Sheung, Ann*, aged 39, joined the Company in 2004 as independent non-executive Director. Ms. Yeung holds a Bachelor degree of Retail Marketing with honours from The Manchester Metropolitan University, United Kingdom and a Diploma in Marketing from The Chartered Institute of Marketing. She pursued her further study on legal course and has been awarded a Diploma in Legal Practice by The Manchester Metropolitan University, United Kingdom in 1998 and is presently a consultant of Bosco Tso & Partners, a legal firm in Hong Kong.

**Company Secretary**

*Ms. Chiu Nam Ying, Agnes*, aged 31, joined the Company in 2003 as company secretary. She is a qualified solicitor and holds a Master degree of Laws from the University of Sheffield, United Kingdom in 1997. Before joining the Company, she was an assistant solicitor of a law firm in Hong Kong.

**Qualified Accountant**

*Mr. Luk Sai Wai, Simon*, aged 41, joined the Company in 2003 as financial controller. He is responsible for finance and accounting matters of the Group. Mr. Luk holds a Bachelor degree of Business Administration from Hong Kong Baptist University and a Master degree of Business Administration from University of Strathclyde, United Kingdom. He is also a fellow member of Association of Chartered Certified Accountants and an associate member of Hong Kong Society of Accountants. For the past nine years and prior to joining the Company, Mr. Luk has been the financial controller of the financial services stem of a listed group in Hong Kong and the group financial controller of another listed group in Hong Kong. He has extensive experience in auditing, trading, manufacturing and financial industries.

**Employment terms of the Directors**

Each of Mr. Yeung, Mr. Chan William and Mr. Lee Siu Cheung was employed by the Group on 1st October, 2003 under which they agreed to act as executive Directors. No service contracts were entered into between each of them and the Company. Under the present employment terms, each of the executive Directors is entitled to a monthly salary and, subject to the discretion of the Board, will be increased. The amount of the monthly salary increment under the present employment terms is at the discretion of the Board with reference to their individual working performance, qualifications, experiences and responsibility, provided that the relevant executive Director shall abstain from voting and not be counted as quorum in any meeting of the Board at which such determination will be made. Under the present employment terms, the termination of service of any executive Director is subject to a two months' notice or payment in lieu.

The monthly salary of each of the executive Directors as at the Latest Practicable Date is set out below:–

<b>Name</b>	<b>Amount</b>
Mr. Yeung	HK\$1.00
Mr. Chan William	HK\$20,000.00
Mr. Lee Siu Cheung	HK\$28,000.00

Each of Mr. Choi Kin Pui, Russelle, Mr. Luk Ka Yee, Patrick, Mr. Yim Kai Pung and Ms. Yeung Mo Sheung, Ann (the “Appointees”) has signed a letter of appointment as for Mr. Luk Ka Yee, Patrick dated 28th January, 2004 and as for Mr. Choi Kin Pui, Russelle, Mr. Yim Kai Pung and Ms. Yeung Mo Sheung, Ann dated 30th March, 2004 with the Group under which he/she has agreed to act as non-executive Director and/or independent non-executive Director, as the case may be, for a period of one year unless terminated in accordance with the terms of the relevant letter of appointment. During the continuance of these appointments, each of the Appointees shall be entitled to a remuneration at HK\$80,000.00 per annum or such higher sum subject to the discretion of the Board with reference to their individual working performance, qualifications, experiences and responsibility. Such remuneration will accrue on a day to day basis and will be payable semi-annually.

#### **Directors’ remuneration**

The aggregate amount of salaries, housing allowances, pension scheme contributions, other allowances and benefits in kind paid by the Group to the Directors for the year ended 30th September, 2003 was approximately HK\$0.6 million.

### **3. AUDIT COMMITTEE**

The Company has set up an audit committee (the “Audit Committee”) which comprises four non-executive Directors, of which three are independent non-executive Directors, with terms of reference prepared based on “A Guide for Effective Audit Committee” published by the Hong Kong Society of Accountants. The principal duties of the Audit Committee are to review and supervise the Group’s financial reporting process and internal control system.

**4. CORPORATE INFORMATION**

<b>Company secretaries</b>	Ms. Chiu Nam Ying, Agnes <i>LL.B (Hons), LL.M.</i> Ira Stuart Outerbridge III* <i>FCIS</i> * <i>Ira Stuart Outerbridge III will resign immediately after listing of the Newco Shares on the Stock Exchange</i>
<b>Qualified accountant</b>	Mr. Luk Sai Wai, Simon <i>FCCA, AHKSA</i>
<b>Authorised representatives</b>	Mr. Lee Siu Cheung Ms. Chiu Nam Ying, Agnes
<b>Registered office</b>	Clarendon House 2 Church Street Hamilton, HM11 Bermuda
<b>Head office and principal place of business in Hong Kong</b>	Units 1002-05A, 10th Floor West Tower, Shun Tak Centre 200 Connaught Road Central Hong Kong
<b>Principal registrar and transfer agent in Bermuda</b>	Butterfield Fund Services (Bermuda) Limited 65 Front Street Hamilton Bermuda
<b>Branch share registrar and transfer office in Hong Kong</b>	Tengis Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai Hong Kong

## 5. PARTIES INVOLVED IN THE PROPOSED REORGANISATION

<b>Sponsor and financial adviser</b>	Tai Fook Capital Limited 25th Floor, New World Tower 16-18 Queen's Road Central Hong Kong
<b>Legal advisers on Hong Kong law</b>	Iu, Lai & Li, Solicitors 20th Floor, Gloucester Tower The Landmark Central Hong Kong
<b>Legal advisers on Bermuda law</b>	Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
<b>Auditors</b>	CCIF CPA Limited (Formerly known as Charles Chan, Ip & Fung CPA Ltd.) 37th Floor, Hennessy Centre 500 Hennessy Road Causeway Bay, Hong Kong
<b>Property valuer</b>	Sallmanns (Far East) Limited 22nd Floor, Siu On Centre 188 Lockhart Road Wan Chai Hong Kong
<b>Principal bankers</b>	Asia Commercial Bank Limited Unit A, 9th Floor, 139 Hennessy Road Wan Chai Hong Kong  International Bank of Asia Limited 38 Des Voeux Road Central Hong Kong  Liu Chong Hing Bank Limited Ground Floor, New World Tower 16-18 Queen's Road Central Hong Kong



## 6. SHARE CAPITAL

## (a) Authorised and issued share capital

The Newco was incorporated on 27th May, 2004 with an authorised share capital of HK\$100,000 consisting of 10,000,000 Newco Shares of HK\$0.01 each, all of which have been issued nil paid and are registered in the name of and beneficially owned by the Company. All of these Newco Shares will be credited as fully-paid upon the Scheme becoming effective. It is proposed that subject to and conditional upon the Scheme becoming effective, the Newco will increase its authorised share capital to HK\$1,600,000,000 by the creation of an additional 159,990,000,000 Newco Shares. In consideration of the cancellation and extinguishment of the Scheme Shares, the Newco will on the Effective Date, allot and issue new Newco Shares, credited as fully-paid, and the Company will transfer all of its holding of Newco Shares, also credited as fully-paid, to the persons who are the holders of Scheme Shares as appearing in the register of members of the Company as at the Record Time in the proportion of one Newco Share for every Scheme Share held.

On the basis of the number of the Shares in issue as at the Latest Practicable Date, and assuming no further Shares are issued upon the exercise of the options which may be granted under the Share Option Scheme and no further Shares are purchased by the Company, the authorised and issued share capital of the Newco upon the Scheme becoming effective will be:

<i>Authorised:</i>		<i>HK\$</i>
<u>160,000,000,000</u>	Newco Shares	<u>1,600,000,000.00</u>
 <i>Issued and fully paid:</i>		
<u>1,587,464,233</u>	Newco Shares	<u>15,874,642.33</u>

Subject to and conditional upon the Scheme becoming effective, the General Mandates will be given to the Directors to:-

- (i) allot, issue and deal with additional Newco Shares or convertible securities of the Newco or similar rights to subscribe for any Newco Shares or convertible securities of the Newco, otherwise than by way of rights to the Newco Shareholders or any scrip dividend or other similar scheme implemented in accordance with the bye-laws of the Newco, up to a maximum of 20% of the aggregate nominal amount of the share capital of the Newco in issue as at the Effective Date;

- (ii) purchase on the Stock Exchange fully-paid up Newco Shares up to a maximum of 10% of the aggregate nominal amount of the share capital of the Newco in issue as at the Effective Date. A summary of the regulations governing securities purchased by companies incorporated in Bermuda and maintaining a primary listing on the Stock Exchange is set out in this Appendix; and
- (iii) extend the Issue Mandate by an amount representing the aggregate nominal amount of the Newco Shares purchased by the Newco pursuant to the Repurchase Mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Newco in issue as at the Effective Date.

The General Mandates will be effective until the earliest of (i) the conclusion of the next annual general meeting of the Newco; (ii) the expiration of the period within which the next annual general meeting of the Newco is required by its bye-laws or any applicable law of Bermuda to be held; or (iii) the variation or revocation of such authority by an ordinary resolution of the Newco Shareholders in a general meeting.

Each of the Newco Shares in issue on the Effective Date will rank *pari passu* in all respects with the existing Newco Shares including as to dividends, voting rights and return of capital or other distributions that may be declared, paid or made.

Application will be made to the Bermuda Monetary Authority requesting permission for, among other things, the issue of the Newco Shares pursuant to the Scheme and any Newco Shares up to the amount of the Newco's authorised share capital from time to time and for the free transfer of such Newco Shares to and between persons regarded as non-residents of Bermuda for exchange control purposes without specific consent for so long as such Newco Shares are listed on the main board of the Stock Exchange. It is expected that such permission will be obtained prior to the Effective Date. Transfers involving persons regarded as residents for exchange control purposes in Bermuda would normally be subject to specific prior exchange control authorisation.

Since the date of its incorporation and save as disclosed in this document, no share or loan capital of the Newco has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts or other special terms have been granted by the Newco or its subsidiaries in connection with the issue or sale of any such capital.

Save as disclosed in this document, none of the unissued shares or loan capital of the Newco is under option or agreed conditionally or unconditionally to be put under option.

**(b) Listing**

The Newco has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Newco Shares in issue and to be issued pursuant to the Scheme and the Newco Shares which may fall to be issued upon the exercise of the Options to be granted under the Newco Share Option Scheme on the Stock Exchange. It is currently intended that the Newco Shares will not be listed or dealt in on any other recognised stock exchange.

**7. REPURCHASE MANDATE****(a) The Listing Rules**

This section includes information required by the Stock Exchange to be included in this document concerning the proposed Repurchase Mandate to be granted to the Directors. Such Repurchase Mandate shall also comply with the requirements of the Hong Kong Code on Share Repurchases.

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

**(i) Explanatory statement**

An explanatory statement complying with the provisions of the Listing Rules must be sent to the shareholders of the company.

**(ii) Shareholder's approval**

The Listing Rules provide that all proposed repurchases of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a particular transaction.

**(iii) Source of funds**

Repurchases must be funded out of funds legally available for the purpose under the laws of the jurisdiction in which the company is incorporated.

*(vi) Trading restrictions*

A maximum of 10% of the outstanding fully-paid issued share capital of a company may be repurchased on the Stock Exchange while the company shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Stock Exchange.

**(b) Share capital**

As at the Latest Practicable Date, the issued share capital of the Company was HK\$15,874,642.33 comprising 1,587,464,233 Shares and no share option had been granted by the Company under the Share Option Scheme.

Assuming that no further Shares are to be issued, allotted or repurchased after the Latest Practicable Date, the total number of the Newco Shares in issue will be 1,587,464,233 upon the Scheme becoming effective, and the Directors will be authorised to repurchase up to 158,746,423 Newco Shares pursuant to the Repurchase Mandate.

**(c) Reasons for purchases**

The Directors believe that it is in the best interests of the Newco and the Newco Shareholders to have a general authority from the Newco Shareholders to enable the Directors to repurchase the Newco Shares in the market upon the listing of the Newco Shares on the main board of the Stock Exchange. Such purchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Newco and its assets or earnings per Newco Share or both and will only be made when the Directors believe that such repurchases will benefit the Newco and the Newco Shareholders as a whole.

**(d) Funding of purchases**

In repurchasing the Newco Shares, the Newco may only apply funds legally available for such purpose in accordance with its memorandum of association and bye-laws and the applicable laws of Bermuda.

The Directors do not propose to exercise the Repurchase Mandate to such extent as could, in the circumstances, have a material adverse effect on the working capital or the gearing level of the Newco which in the opinion of its Directors is from time to time appropriate for the Newco.

**(e) Directors, their associates and connected persons**

None of the Directors and, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intend to sell the Newco Shares to which they will be entitled in consideration of the cancellation of their Scheme Shares upon the Scheme becoming effective.

No connected person (as defined in the Listing Rules) of the Company and the Newco has notified the Company or the Newco that he/she has a present intention to sell any Newco Shares to which he/she will be entitled in consideration of the cancellation of his/her Scheme Shares or has undertaken not to do so.

**(f) Directors' undertaking**

The Directors have undertaken to the Stock Exchange that they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda so far as the same may be applicable.

**(g) Effect of the Takeovers Code**

If, as a result of securities repurchased by a company, a shareholder's proportionate interest in the voting rights of the company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of shareholders acting in concert, could obtain or consolidate control of the company and becomes obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Silver Rich and Spring Wise, were interested or deemed to be interested in an aggregate of 905,187,432 Shares, representing approximately 57.02% of the issued share capital of the Company.

In the event that the Directors exercise the power in full to purchase the Newco Shares pursuant to the Repurchase Mandate, the increase in the percentage of the shareholdings of Silver Rich and Spring Wise together with parties presumed to be acting in concert with them in the Newco Shares to which they will be entitled in consideration of and in exchange for the cancellation of their Scheme Shares will not give rise to an obligation to make a mandatory

offer under Rule 26 of the Takeovers Code. Therefore, the Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchase to be made under the Repurchase Mandate.

**(h) Purchases of Shares**

The Company did not repurchase any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

**(i) Share prices**

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of the previous 12 calendar months preceding the Latest Practicable Date are as follows:

	Price per Share	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>2003</b>		
August	0.560	0.165
September	0.510	0.395
October	0.475	0.415
November	0.465	0.425
December	0.620	0.440
<b>2004</b>		
January	0.690	0.530
February	0.820	0.540
March	0.780	0.590
April	0.630	0.570
May	0.660	0.485
June	0.620	0.550
July	0.600	0.500

**8. ESTATE DUTY**

The Directors have been advised that no adverse material liability for estate duty would be likely to fall upon any member of the Group in relation to the implementation of the Scheme within the meaning of the Hong Kong Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong.

**9. NEWCO SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Newco Share Option Scheme:

**a. Purposes**

The purposes of the Newco Share Option Scheme are:–

- (i) to enable the Group and any Invested Entity to recruit and retain high calibre employees and attract human resources that are valuable to the Group or any Invested Entity;
- (ii) to recognize the significant contributions of the Eligible Participants to the growth of the Group or any Invested Entity by rewarding them with opportunities to obtain ownership interest in the Newco; and
- (iii) to further motivate and give incentives to these persons to continue to contribute to the long term success and prosperity of the Group or any Invested Entity.

**b. Who may join**

The Board may invite any person belonging to any of the following classes as the Board may in its absolute discretion select, having regard to each person's qualifications, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Group or any Invested Entity, to take up Options to subscribe for Newco Shares at a price calculated in accordance with paragraph (c) below:–

- (i) any employee (whether full time or part time and including executive director) of any member of the Group or any Invested Entity;
- (ii) any non-executive director (including independent non-executive director) of any member of the Group or any Invested Entity;
- (iii) any consultant, adviser or agent (legal, financial or professional) engaged by any member of the Group or any Invested Entity, who, under the terms of relevant engagement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Newco; and

- (iv) any vendor, supplier of goods or services or customer of or to any member of the Group or Invested Entity who, under the terms of relevant agreement with the Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Newco.

***c. Exercise price and acceptance period***

The exercise price for the Newco Shares under the Newco Share Option Scheme shall be a price determined by the Board in its absolute discretion but in any event shall not be less than the highest of:–

- (i) the official closing price of the Newco Shares as stated in the daily quotation sheets of the Stock Exchange on the Offer Date;
- (ii) the average of the official closing price of the Newco Shares as stated in the daily quotation sheets of the Stock Exchange for the five Business Days immediately preceding the Offer Date; and
- (iii) the nominal value of a Newco Share.

Unless provided otherwise in the Listing Rules, the date of the Board meeting at which the Board proposes to grant the proposed Options under paragraphs (e)(ii) and (f)(ii) below to that Eligible Participant shall be taken as the Offer Date for the purpose of calculating the exercise price.

The Eligible Participant must accept any such Offer notified to him or her within twenty-eight days from the Offer Date, failing which it shall be deemed to have been rejected. Upon acceptance of the Offer, the grantee shall pay HK\$1.00 to the Newco as consideration for the grant.

***d. Number of Newco Shares subject to the Newco Share Option Scheme***

- (i) Unless further approval has been obtained pursuant to sub-paragraphs (ii) and/or (iii) below and subject to sub-paragraphs (iv) and (v) below, the maximum number of Newco Shares which may be issued upon exercise of all options to be granted under the Newco Share Option Scheme and any other scheme(s) must not in aggregate exceed ten per cent. (the “Scheme Limit”) of the Newco Shares in issue on the date of the adoption of the Newco Share Option Scheme by the Newco (the “Adoption Date”). Options lapsed in accordance with the terms of the Newco Share Option Scheme will not be counted for the purpose of calculating the Scheme Limit.



- (ii) Subject to sub-paragraph (iv) below, the issue of a circular by the Newco which complies with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and the approval of the Newco Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Scheme Limit may be refreshed such that the total number of Newco Shares which may be issued upon exercise of all options to be granted under the Newco Share Option Scheme and any other scheme(s) shall not exceed ten per cent. (10%) of the Newco Shares in issue (“New Scheme Limit”) as at the date of such Newco Shareholders’ approval. Options previously granted under the Newco Share Option Scheme and any other scheme(s) (including those outstanding, cancelled, lapsed in accordance with the respective provisions of the schemes or exercised options) will not be counted for the purpose of calculating the New Scheme Limit.
- (iii) Subject to sub-paragraph (iv) below, the issue of a circular by the Newco to the Newco Shareholders and the approval of the Newco Shareholders in general meeting in compliance with Rules 17.03(3) and 17.06 of the Listing Rules and/or such other requirements prescribed under the Listing Rules from time to time, the Board may grant Options exceeding the Scheme Limit to Eligible Participants specifically identified by the Board before such Newco Shareholders’ approval is sought. The Newco must send a circular containing the information required under Note 1 to Rule 17.03(3) of the Listing Rules to the Newco Shareholders in connection with such grant.
- (iv) The Scheme Limit and any increase in the Scheme Limit pursuant to sub-paragraphs (ii) and/or (iii) above shall in no event result in the number of the Newco Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Newco Share Option Scheme and all other scheme(s) exceed thirty per cent. (30%) of the Newco Shares in issue from time to time. No options may be granted under the Newco Share Option Scheme and any other scheme(s) if such limit is exceeded.
- (v) The Scheme Limit referred to in sub-paragraph (i) above (or as increased in accordance with sub-paragraphs (ii) and/or (iii) above, as the case may be) shall be adjusted, in such manner as the auditors of the Newco or the approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Newco in accordance with paragraph (m) below whether by way of capitalisation issue, sub-division or consolidation of shares or reduction of capital of the Newco but in any event shall not exceed the limit prescribed in sub-paragraph (iv) above.

*e. Maximum number per grantee*

- (i) Unless the approval of the Newco Shareholders contemplated under sub-paragraph (ii) below is obtained, the maximum number of Newco Shares in respect of which Options may be granted under the Newco Share Option Scheme to any Eligible Participant shall not, when aggregated with:–
  - (a) any Newco Shares issued upon exercise of Options or options under the other schemes which have been granted to that Eligible Participant;
  - (b) any Newco Shares which would be issued upon the exercise of outstanding Options or options under the other scheme(s) granted to that Eligible Participant; and
  - (c) any Newco Shares that have been cancelled and were the subject of Options or options under the other scheme(s) which had been granted to and accepted by that Eligible Participant,

in any 12-month period up to the Offer Date, exceed one per cent. (1%) of the number of Newco Shares in issue on the Offer Date.

- (ii) If the Board determines to offer Options to an Eligible Participant which exceed the limit set out in sub-paragraph (i) above, that grant shall be subject to (1) the issue of a circular by the Newco to the Newco Shareholders which shall comply with Rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and (2) the approval of the Newco Shareholders in general meeting at which that Eligible Participant and his or her associates shall abstain from voting.

*f. Maximum number per grantee who is a connected person*

- (i) Subject to sub-paragraph (ii) below, if the Board determines to offer to grant Options to a director, chief executive or substantial shareholder of the Newco or any of his or her associates, such grant shall be subject to the approval by the independent non-executive Directors (excluding the independent non-executive Director who is the relevant Eligible Participant).
- (ii) If the Board determines to offer to grant Options to a substantial shareholder of the Newco or an independent non-executive Director (or any of his or her associates) and that grant would result in the Newco Shares issued and to be issued upon exercise of all options already granted and to be granted (including

options exercised, cancelled and outstanding) to such person under the Newco Share Option Scheme and the other schemes in the 12-month period up to and including the Offer Date:

- (a) representing in aggregate over 0.1 per cent. of the Newco Shares in issue on the Offer Date; and
- (b) having an aggregate value, based on the official closing price of the Newco Shares as stated in the daily quotation sheets of the Stock Exchange on the Offer Date, in excess of HK\$5 million,

such grant shall be subject to the issue of a circular by the Newco to the Newco Shareholders and the approval of the Newco Shareholders in general meeting by poll at which all connected persons of the Newco shall abstain from voting except that a connected person of the Newco may vote against the relevant resolution at the general meeting provided that his or her intention to do so has been stated in that circular which shall comply with Rules 17.04 and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time.

***g. Exercise period and performance target***

Subject to paragraphs (i), (j), (k) and (l) below and unless otherwise determined by the Board and notified to the grantee on or prior to the Offer Date, an Option may be exercised in accordance with the terms of the Newco Share Option Scheme at any time during an option period determined by the Board but in any event not exceeding 10 years after it has been granted or deemed to be granted and accepted by the grantee, subject to any restrictions or conditions on the exercise of the Options as the Board may determine.

There is no provision in the Newco Share Option Scheme to require a grantee to fulfill any performance target or to hold the Option for a certain period before exercising the Option, but the Board may at its absolute discretion from time to time provide such requirements in the offer of grant of Options.

***h. Non-transferability***

An Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt to do so (save that the grantee may nominate a nominee in whose name the Newco Shares issued pursuant to the Newco Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Newco to cancel any outstanding Options or any part thereof granted to such grantee.

*i. Rights on ceasing to be an Eligible Participant or on death*

- (i) Where the grantee ceases to be an Eligible Participant for any reason other than his or her ill-health, injury or disability (all evidenced to the satisfaction of the Board) or death or termination of his or her employment or engagement or cessation of his or her directorship on one or more of the grounds set out in paragraph (p)(iv) below, the grantee may exercise the Option up to his or her entitlement at the date of cessation of his or her employment or engagement or directorship (to the extent not already exercised) on or before the earlier of (i) the expiry of a period of six months following the date of such cessation, which date shall be the last actual working day with or for the Group or the relevant Invested Entity whether salary or compensation is paid in lieu of notice or not (or such longer period as the Board may determine) or (ii) the relevant Expiry Date, and the Board's decision in this regard shall be conclusive.
- (ii) Where the grantee ceases to be an Eligible Participant by reason of ill-health, injury or disability (all evidenced to the satisfaction of the Board) or death and none of the events which would be a ground for termination of his or her employment or engagement or cessation of his or her directorship under paragraph (p)(iv) below has occurred, the grantee or the legal personal representative(s) of the grantee, as the case may be, shall be entitled to exercise the Option in full (to the extent not already exercised) on or before the earlier of (i) the last day in the 12-month period commencing from the date of ceasing to be an Eligible Participant or death (or such longer period as the Board may determine) or (ii) the relevant Expiry Date.

*j. Winding-up*

In the event a notice is given by the Newco to the Newco Shareholders to convene a Newco Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution for the voluntary winding-up of the Newco, the Newco shall forthwith give notice thereof to the grantee and the grantee (or his or her legal personal representative(s)) may by notice in writing to the Newco accompanied by a remittance for the full amount of the aggregate exercise price for the Newco Shares in respect of which the notice is given (such notice to be received by the Newco not later than five Business Days prior to the proposed Newco Shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Newco shall as soon as possible and in any event no later than the two Business Days immediately prior to the date of the proposed Newco Shareholders' meeting, allot and issue such number of Newco Shares to the grantee which falls to be issued on such exercise.

*k. General offer*

If a general offer (whether by way of take-over offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Newco Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror), the Newco shall use its reasonable endeavors to procure that such offer is extended to all grantees (on the same terms, mutatis mutandis, and assuming that they shall become, by the exercise in full of the Options granted to them, Newco Shareholders). If such offer having been approved in accordance with applicable laws and regulatory requirements becomes or is declared unconditional prior to the expiry date of the relevant option, the grantee (or his or her legal personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within fourteen days after the date on which such general offer becomes, or is declared unconditional, provided that, if, during such period, such person becomes entitled to exercise rights of compulsory acquisition of Newco Shares pursuant to the Companies Act and gives notices in writing to any holders of Newco Shares that he or she intends to exercise such rights, Options (to the extent not already exercised) shall be and remain exercisable until one month from the date of such notice and, to the extent that they have not been exercised, shall thereupon lapse and determine.

*l. Compromise or arrangement with members or creditors*

If, pursuant to the Companies Act, a compromise or arrangement between the Newco and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Newco or its amalgamation with any other company or companies, the Newco shall give notice thereof to all the grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to members and/or creditors of the Newco a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his or her Options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the Newco Shares issued as a result of the exercise of Options under this paragraph shall for the purposes of such compromise or arrangement form part of the issued share capital of the Newco on the effective date thereof and that such Newco Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the

terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective Options shall with effect from the date of the making of the order by the relevant court be restored in full but only to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Newco Share Option Scheme) (provided that the options period shall accordingly be extended by the length of the period of suspension) as if such compromise or arrangement had not been proposed by the Newco and no claim shall lie against the Newco or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

*m. Adjustment*

- (i) In the event of any capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital of the Newco, such corresponding alterations (if any) shall be made (except on an issue of securities of the Newco as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:
  - (a) the number of Newco Shares subject to any outstanding Options; and/or
  - (b) the exercise price; and/or
  - (c) the number of Newco Shares in respect of which any further Options may be granted within the limits set out in the Newco Share Option Scheme (including without limitation, the Scheme Limit or if applicable, the New Scheme Limit referred to in paragraph (d) above),

as the auditors of the Newco or an approved independent financial adviser shall at the request of the Newco or any grantee, certify in writing either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided that any such alterations shall be made on the basis that:–

- (1) a grantee shall have the same proportion of the equity capital of the Newco as that to which he or she was entitled to subscribe had he or she exercised all the Options held by him or her immediately before such adjustments; and
- (2) the aggregate exercise price payable by a grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event,

and provided further that no such alterations shall be made if the effect of such alterations would be to enable a Newco Share to be issued at less than its nominal value.

- (ii) In respect of any adjustments required by sub-paragraph (i) above, other than any made on a capitalisation issue, the auditors of the Newco or the approved independent financial adviser, as the case may be, shall confirm to the Board in writing that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rules and the note thereto and/or such other requirement prescribed under the Listing Rules from time to time.

***n. Alteration of rules***

- (i) The terms and conditions of the Newco Share Option Scheme and the regulations for the administration and operation of the Newco Share Option Scheme (provided that the same are not inconsistent with the Listing Rules) may be altered in any respect by resolution of the Board except that:
  - (1) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules, including without limitation, the definitions of “Participant”, “Expiry Date”, “Grantee” and “Option Period” in paragraph 1.1 of the Newco Share Option Scheme and the provisions in paragraphs (a) to (m) above, (o), (p), (r), (s) and (t) below and this paragraph (n); or
  - (2) any material alteration to the terms and conditions of the Newco Share Option Scheme or any change to the terms of Options granted (except any alterations which take effect automatically under the terms of the Newco Share Option Scheme),

must be made with the prior approval of the Newco Shareholders in general meeting at which any persons to whom or for whose benefit the Newco Shares may be issued under the Newco Share Option Scheme and their respective associates shall abstain from voting provided that the amended terms of the Newco Share Option Scheme or the Options shall remain in compliance with Chapter 17 of the Listing Rules.

*o. Ranking of the Newco Shares*

The Newco Shares to be allotted and issued upon the exercise of an Option shall not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject as aforesaid, the Newco Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the constitutional documents of the Newco for the time being in force and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of the Newco as attached to the fully-paid Newco Shares in issue on the date of allotment, in particular but without prejudice to the generality of the foregoing, in respect of voting, transfer and other rights including those arising on a liquidation of the Newco and rights in respect of any dividend or other distributions paid or made on or after the date of issue.

*p. Lapse of Option*

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:–

- (i) the expiry date relevant to that Option;
- (ii) the expiry of the periods referred to in paragraphs (i) or (k) above;
- (iii) the date on which the scheme for the reconstruction of the Newco or its amalgamation with any other company or companies, becomes effective as referred to in paragraph (l) above;
- (iv) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his or her employment or engagement or cessation of his or her directorship on any one or more of the grounds that he or she has been guilty of misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment or engagement at common law or pursuant to any applicable laws or under the grantee's service or engagement contract with the relevant member of the Group or the relevant Invested Entity. A resolution of the Board or the board of directors of the relevant subsidiary of the Newco or the relevant Invested Entity to the effect that the employment or engagement of a grantee has or has not been terminated on one or more of the grounds specified in this sub-paragraph shall be conclusive;



- (v) the date of commencement of the winding-up of the Newco (as determined in accordance with the applicable law) as referred to in paragraph (j) above;
- (vi) the date on which the grantee ceases to be an Eligible Participant on or after committing any act of bankruptcy or becoming insolvent or making any arrangements or composition with his/her creditors generally;
- (vii) where the grantee commits a breach of paragraph (h) above, the date which the Board shall designate in the exercise of the Newco's right to cancel the Option thereunder; and
- (viii) in the case of a grantee who is vendor, supplier of goods and services or customer of or to any member of the Group or the relevant Invested Entity, in accordance with the terms of the relevant engagement or agreements between such persons and the relevant member of the Group or the relevant Invested Entity (as the case may be).

***q. Conditions***

The Newco Share Option Scheme is conditional on (i) the Scheme becoming effective; (ii) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Newco Shares, representing 10% of the issued share capital of the Newco as at the Adoption Date, falling to be issued pursuant to the exercise of Options granted under the Newco Share Option Scheme; and (iii) if necessary, the Bermuda Mandatory Authority granting permission for the grant of Options by the Newco and the issue of the Newco Shares pursuant to the exercise of the Options.

***r. Term of the Newco Share Option Scheme***

The Newco Share Option Scheme will remain in force for a period of ten years commencing on the Adoption Date, after which no further Options shall be granted but the Options which are granted during the life of the Newco Share Option Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the Newco Share Option Scheme shall in all other respects remain in full force and effect in respect thereof.

*s. Cancellation of Options*

Any cancellation of Options granted but not exercised must be approved by the grantees of the relevant Options. Where the Board cancels Options and issues new ones to the same Eligible Participant, the issue of such new Options may only be made under the Newco Share Option Scheme with available unissued Options (excluding the cancelled Options) within the limit approved by the Newco Shareholders as mentioned in paragraph (d) above.

*t. Early Termination*

The Newco may by resolution in general meeting or the Board may at any time resolve to terminate the operation of the Newco Share Option Scheme and in such event no further Options shall be offered but the provisions of the Newco Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Option granted prior to the termination or otherwise as may be required in accordance with their terms and the Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Newco Share Option Scheme.

**10. SUMMARY OF CONSTITUTION OF THE NEWCO AND BERMUDA COMPANY LAW**

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and the bye-laws (the “Bye-laws”) of the Newco and of certain aspects of Bermuda company law.

**A. MEMORANDUM OF ASSOCIATION**

The Memorandum of Association states, inter alia, that the liability of members of the Newco is limited to the amount, if any, for the time being unpaid on the shares held by the members and that the Newco is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Newco was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Newco will be carrying on business outside Bermuda from a place of business in Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers it to purchase its own shares and this power is exercisable by the board of directors of the Newco upon such terms and subject to such conditions as it thinks fit.

**B. BYE-LAWS**

The following is a summary of certain provisions of the Bye-laws:

**(a) Directors*****(i) Power to allot and issue shares and warrants***

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Newco may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Newco or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Newco before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Newco on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws, any direction that may be given by the Newco in general meeting and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Newco shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Newco nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(ii) Power to dispose of the assets of the Newco or any of its subsidiaries***

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Newco or any of its subsidiaries.

*Note:* The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Newco and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Newco in general meeting.

***(iii) Compensation or payments for loss of office***

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Newco in general meeting.

***(iv) Loans and provision of security for loans to Directors***

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

***(v) Financial assistance to purchase shares of the Newco***

Neither the Newco nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Newco for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

***(vi) Disclosure of interests in contracts with the Newco or any of its subsidiaries***

A Director may hold any other office or place of profit with the Newco (except that of auditor of the Newco) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Newco or any other company

in which the Newco may be interested, and shall not be liable to account to the Newco or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Newco to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Newco, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Newco or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Newco shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Newco or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Newco or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Newco or any other company which the Newco may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or subunderwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Newco or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Newco;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in 5 per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Newco or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

**(vii) *Remuneration***

The ordinary remuneration of the Directors shall from time to time be determined by the Newco in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Newco or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Newco or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Byelaw. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Newco or companies with which it is associated in business) in establishing and making contributions out of the Newco's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or exDirector who may hold or have held any executive office or any office of profit with the Newco or any of its subsidiaries) and exemployees of the Newco and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and exemployees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or exemployees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***(viii) Retirement, appointment and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last reelection or appointment but as between persons who became or were last reelected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

*Note:* There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Newco and shall then be eligible for reelection at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Newco by way of qualification.

A Director may be removed by an ordinary resolution of the Newco before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Newco) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Newco in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Newco.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Newco for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Newco or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.



**(ix) *Borrowing powers***

The board may from time to time at its discretion exercise all the powers of the Newco to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Newco and, subject to the Companies Act, to issue debentures, bonds and other securities of the Newco, whether outright or as collateral security for any debt, liability or obligation of the Newco or of any third party.

*Note:* These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Newco.

**(b) **Alterations to constitutional documents****

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Newco in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Newco.

**(c) **Alteration of capital****

The Newco may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and

- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Newco may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or, save for the use of share premium as expressly permitted by the Companies Act, any share premium account or other undistributable reserve.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

**(e) Special resolution majority required**

A special resolution of the Newco must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

**(f) Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Newco conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Newco it may authorise such persons as it thinks fit to act as its representative(s) at any meeting of the Newco or at any meeting of any class of members of the Newco provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares held by that clearing house (or its nominee(s)) in respect of the number and class of shares specified in the relevant authorisation including the right to vote individually on a show of hands.

Where any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Bye-laws), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Newco must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Newco, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Newco and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Newco's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Newco except as conferred by law or authorised by the board or the Newco in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Newco under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Newco in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Newco is not aware or to more than one of the joint holders of any shares or debentures; however, to the extent permitted by and subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Newco may send to such persons a summary financial statement derived from the Newco's annual accounts and the directors' report instead provided that any such person

may by notice in writing served on the Newco, demand that the Newco sends to him, in addition to a summary financial statement, a complete printed copy of the Newco's annual financial statement and the directors' report thereon.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Newco and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Newco shall, during his continuance in office, be eligible to act as an auditor of the Newco. The remuneration of the auditor shall be fixed by the Newco in general meeting or in such manner as the members may determine.

The financial statements of the Newco shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in subparagraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in

any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Newco has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Newco in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for the Newco to purchase its own shares**

The Bye-laws supplement the Newco's Memorandum of Association (which gives the Newco the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

**(l) Power for any subsidiary of the Newco to own shares in the Newco**

There are no provisions in the Bye-laws relating to ownership of shares in the Newco by a subsidiary.

**(m) Dividends and other methods of distribution**

Subject to the Companies Act, the Newco in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Newco in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Newco unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Newco on or in respect of any shares all sums of money (if any) presently payable by him to the Newco on account of calls or otherwise.

Whenever the board or the Newco in general meeting has resolved that a dividend be paid or declared on the share capital of the Newco, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The

Newco may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Newco that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Newco in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Newco until claimed and the Newco shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Newco.

**(n) Proxies**

Any member of the Newco entitled to attend and vote at a meeting of the Newco is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Newco or at a class meeting. A proxy need not be a member of the Newco. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

**(o) Call on shares and forfeiture of shares**

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Newco may pay interest at such rate (if any) as the board may decide.



If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of nonpayment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect.

Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Newco all monies which, at the date of forfeiture, were payable by him to the Newco in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

**(p) Inspection of register of members**

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of ten Bermuda dollars, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

**(q) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Newco under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Newco be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Newco shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Newco whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

The Newco may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Newco has not during that time received any indication of the existence of the member; and (iii) the Newco has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Newco and upon receipt by the Newco of such net proceeds, it shall become indebted to the former member of the Newco for an amount equal to such net proceeds.

**(u) Other provisions**

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Newco and the Newco does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Newco is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

**C. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS**

The Memorandum of Association may be altered by the Newco in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of the Newco in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Newco. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Newco as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

**D. BERMUDA COMPANY LAW**

The Newco is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Share capital**

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”, to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

**(b) Financial assistance to purchase shares of a company or its holding company**

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

**(c) Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased will be treated as cancelled and the company's issued but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

**(d) Dividends and distributions**

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

**(e) Protection of minorities**

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

**(f) Management**

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

**(g) Accounting and auditing requirements**

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to the company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than 21 days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within 7 days of receipt by the company of the member's notice of election.

**(h) Auditors**

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.



Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

**(i) Exchange control**

An exempted company is usually designated as "nonresident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

**(j) Taxation**

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by nonresidents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted

Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

**(k) Stamp duty**

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

**(l) Loans to directors**

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

**(m) Inspection of corporate records**

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company’s certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company’s memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company’s audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members

established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

**(n) Winding up**

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

#### **E. GENERAL**

Conyers Dill & Pearman, the Newco's legal advisers on Bermuda law, have sent to the Newco a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, and a copy of the Bye-laws are available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## 1. FINANCIAL SUMMARY

The tables below set out the audited consolidated results of the Group for the three financial years/periods ended 30th September, 2003 and the audited consolidated net assets/(liabilities) of the Group as at the last three reported financial years/periods ended dates, as derived from the audited consolidated financial statements of the Company of each respective year adjusted to reflect the change in accounting policy of the Company. **Shareholders should note the qualifications stated in the auditors' reports of the Company for the fifteen months ended 30th September, 2001 and for the year ended 30th September, 2002.** The aforementioned auditors' reports of the Company are extracted in the section headed "3. Auditors' reports of the Company for the fifteen months ended 30th September, 2001 and for the year ended 30th September, 2002" in this Appendix.

	<b>Year ended</b>		Fifteen months
	<b>30th September,</b>	2002	ended
	<b>2003</b>		30th September,
	<i>HK\$'000</i>	<i>HK\$'000</i>	2001
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>
Turnover	<b>116,838</b>	302,263	441,827
Profit/(loss) before taxation	<b>35,884</b>	(115,715)	(326,004)
Taxation	<b>(296)</b>	133	(3,548)
Profit/(loss) after taxation	<b>35,588</b>	(115,582)	(329,552)
Minority interests	<b>44</b>	175	301
Net profit/(loss) attributable to shareholders	<b>35,632</b>	(115,407)	(329,251)
Earnings/(loss) per share			
– basic	<b>9.0 cents</b>	(77.4 cents)	(31.7 cents)
– diluted	<b>N/A</b>	N/A	N/A
Dividend	<b>Nil</b>	Nil	Nil

## ASSETS AND LIABILITIES

	30th September,		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)
		(restated)	
Total assets	<b>83,882</b>	72,668	371,933
Total liabilities	<b>(53,509)</b>	(166,611)	(327,590)
Minority interests	<b>(1,106)</b>	(1,261)	–
Net assets/(liabilities)	<b><u>29,267</u></b>	<b><u>(95,204)</u></b>	<b><u>44,343</u></b>

**2. FINANCIAL STATEMENTS****2A. Year ended 30th September, 2003**

Set out below is the audited financial statements of the Group for the year ended 30th September, 2003. In respect of the notes to the following financial statements, references to page numbers are the page numbers of the annual report of the Company for the year ended 30th September, 2003:

**CCIF****Charles Chan, Ip & Fung CPA Ltd.**

37th Floor, Hennessy Centre

500 Hennessy Road

Causeway Bay, Hong Kong

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E-mail: [Info@ccifcpa.com.hk](mailto:Info@ccifcpa.com.hk)[www.hkcpa.com](http://www.hkcpa.com)**AUDITORS' REPORT TO THE SHAREHOLDERS OF MACAU SUCCESS LIMITED***(Formerly known as China Development Corporation Limited)**(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 20 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30th September, 2003 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Charles Chan, Ip & Fung CPA Ltd.**

*Certified Public Accountants*

Hong Kong, 27th January, 2004

**Chan Wai Dune, Charles**

*Practising Certificate Number P00712*



**Consolidated Income Statement***Year ended 30th September, 2003*

	Notes	Continuing operations		Discontinued operations		Consolidated	
		2003	2002	2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	4	<b>116,838</b>	35,992	-	266,271	<b>116,838</b>	302,263
Cost of sales		<b>(79,794)</b>	(21,784)	-	(259,043)	<b>(79,794)</b>	(280,827)
Gross profit		<b>37,044</b>	14,208	-	7,228	<b>37,044</b>	21,436
Other revenue	4	<b>307</b>	2,504	-	3,239	<b>307</b>	5,743
		<b>37,351</b>	16,712	-	10,467	<b>37,351</b>	27,179
Selling expenses		<b>(29,756)</b>	(9,244)	-	-	<b>(29,756)</b>	(9,244)
Administrative expenses		<b>(10,573)</b>	(11,110)	-	(51,657)	<b>(10,573)</b>	(62,767)
Other operating expenses, net		<b>(660)</b>	(69,522)	-	(32,035)	<b>(660)</b>	(101,557)
Gain on disposal of subsidiaries		<b>7,984</b>	-	-	-	<b>7,984</b>	-
Waiver of other loans	5	<b>36,180</b>	-	-	-	<b>36,180</b>	-
Gain on disposal of discontinued operations	6	-	-	-	44,551	-	44,551
<b>Profit/(loss) from operations</b>	8	<b>40,526</b>	(73,164)	-	(28,674)	<b>40,526</b>	(101,838)
Finance costs	9	<b>(4,642)</b>	(3,320)	-	(9,272)	<b>(4,642)</b>	(12,592)
		<b>35,884</b>	(76,484)	-	(37,946)	<b>35,884</b>	(114,430)
Share of loss of associated company		-	-	-	(1,285)	-	(1,285)
<b>Profit/(loss) before taxation</b>		<b>35,884</b>	(76,484)	-	(39,231)	<b>35,884</b>	(115,715)
Taxation	10	<b>(296)</b>	-	-	133	<b>(296)</b>	133
Profit/(loss) after taxation		<b>35,588</b>	(76,484)	-	(39,098)	<b>35,588</b>	(115,582)
Minority interests		<b>44</b>	175	-	-	<b>44</b>	175
<b>Net profit/(loss) from ordinary activities attributable to shareholders</b>	11	<b>35,632</b>	(76,309)	-	(39,098)	<b>35,632</b>	(115,407)
Earnings/(loss) per share	12						
- Basic						<b>9.0 cents</b>	(77.4 cents)
- Diluted						<b>N/A</b>	N/A

**Consolidated Balance Sheet***As at 30th September, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>13</i>	<b>6,346</b>	6,072
Goodwill	<i>14</i>	<b>5,633</b>	6,819
		<u><b>11,979</b></u>	<u>12,891</u>
<b>CURRENT ASSETS</b>			
Inventories	<i>16</i>	<b>3,797</b>	4,925
Amount due from customers for contract work	<i>17</i>	<b>3</b>	3,093
Trade receivables	<i>18</i>	<b>19,480</b>	13,332
Deposits, prepayment and other receivables		<b>1,265</b>	33,423
Short-term investments	<i>19</i>	–	230
Cash and bank balances		<b>47,358</b>	4,774
		<u><b>71,903</b></u>	<u>59,777</u>
<b>CURRENT LIABILITIES</b>			
Amount due to customers for contract work	<i>17</i>	<b>(7,637)</b>	(5,792)
Trade payables	<i>20</i>	<b>(16,309)</b>	(21,608)
Other payables and accruals		<b>(17,756)</b>	(14,737)
Due to a former director	<i>21</i>	–	(5,615)
Tax payable		<b>(305)</b>	(516)
Current portion of finance lease payable	<i>22</i>	<b>(32)</b>	(48)
Current portion of interest-bearing bank loan	<i>23</i>	<b>(99)</b>	(95)
Other borrowings	<i>24</i>	<b>(10,470)</b>	–
		<u><b>(52,608)</b></u>	<u>(48,411)</u>
<b>NET CURRENT ASSETS</b>		<u><b>19,295</b></u>	<u>11,366</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>31,274</b>	24,257

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**APPENDIX III****FINANCIAL INFORMATION**

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	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payable	22	–	(96)
Interest-bearing bank loan	23	<b>(901)</b>	(1,000)
Other borrowings	24	–	(117,104)
		<u>          </u>	<u>          </u>
		<b>(901)</b>	(118,200)
<b>MINORITY INTERESTS</b>			
		<u><b>(1,106)</b></u>	<u>(1,261)</u>
<b>NET ASSETS/(LIABILITIES)</b>			
		<u><b>29,267</b></u>	<u>(95,204)</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	26	<b>14,903</b>	596,257
Reserves	28	<b>14,364</b>	(691,461)
		<u>          </u>	<u>          </u>
		<u><b>29,267</b></u>	<u>(95,204)</u>

**Balance Sheet***As at 30th September, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>13</i>	<b>1,706</b>	11
Interest in subsidiaries	<i>15</i>	<b>5</b>	–
		<u>1,711</u>	<u>11</u>
<b>CURRENT ASSETS</b>			
Other receivables		<b>277</b>	32,472
Cash and bank balances		<b>42,701</b>	229
		<u>42,978</u>	<u>32,701</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<b>(12,938)</b>	(12,197)
<b>NET CURRENT ASSETS</b>			
		<u>30,040</u>	<u>20,504</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>31,751</b>	20,515
<b>NON-CURRENT LIABILITIES</b>			
Other borrowings	<i>24</i>	–	(106,163)
<b>NET ASSETS/(LIABILITIES)</b>			
		<u><b>31,751</b></u>	<u>(85,648)</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>26</i>	<b>14,903</b>	596,257
Reserves	<i>28</i>	<b>16,848</b>	(681,905)
		<u><b>31,751</b></u>	<u>(85,648)</u>

**Consolidated Cash Flow Statement***Year ended 30th September, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		<b>115,528</b>	277,616
Cash paid to suppliers and employees		<b>(115,484)</b>	(243,420)
Cash generated from operations		<b>44</b>	34,196
Interest paid		<b>(771)</b>	(4,781)
Tax paid		<b>(507)</b>	(816)
Others		<b>(510)</b>	6,008
Net cash (used in)/generated from operating activities		<b>(1,744)</b>	34,607
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(2,770)</b>	(3,564)
Proceeds from disposal of property, plant and equipment		–	3,824
Interest received		<b>77</b>	543
Collection from long term receivables		–	5,397
Collection of an exchange note		<b>32,370</b>	–
Acquisition of subsidiaries	<i>29</i>	–	4,346
Disposal of subsidiaries	<i>30</i>	<b>73</b>	(8,196)
Net cash generated from investing activities		<b>29,750</b>	2,350
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of new shares		<b>89,994</b>	–
Costs on issue of new shares		<b>(1,155)</b>	–
Other borrowings raised		<b>27,925</b>	–
Capital element of finance lease rental payments		<b>(112)</b>	(4,672)
Repayment of bank loan		<b>(95)</b>	–
Repayment of other borrowings		<b>(101,979)</b>	(48,749)
Release of fixed deposits pledged to financial institutions		–	6,631
Net cash generated from/(used in) financing activities		<b>14,578</b>	(46,790)
Increase/(decrease) in cash and cash equivalents		<b>42,584</b>	(9,833)
Cash and cash equivalents at beginning of year		<b>4,774</b>	14,607
Cash and cash equivalents at end of year		<b>47,358</b>	4,774

**Consolidated Statement of Changes in Equity***Year ended 30th September, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Shareholders' equity brought forward		<b>(95,204)</b>	44,343
Proceeds from issue of new shares	26, 28	<b>89,994</b>	–
Costs on issue of new shares	28	<b>(1,155)</b>	–
Realisation of capital reserve on disposal of subsidiary company	28	–	11,933
Realisation of investment revaluation reserve on disposal of subsidiary company	28	–	12,192
Realisation of asset revaluation reserve on disposal of subsidiary company	28	–	(15,485)
Realisation of exchange fluctuation reserve on disposal of subsidiary company	28	–	(32,780)
Net profit/(loss) for the year	28	<b>35,632</b>	(115,407)
Shareholders' equity carried forward		<b>29,267</b>	(95,204)

**Notes to the Financial Statements***30th September, 2003***1. ORGANISATION AND PRINCIPAL ACTIVITIES**

Macau Success Limited (formerly known as China Development Corporation Limited) (the “Company”) was incorporated under the laws of Hong Kong on 29th September, 1987 with limited liabilities. The Company’s shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of subsidiaries are set out in note 15 to the financial statements.

**2. 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 (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”), the requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange. The financial statements are prepared under the historical cost convention.

In the current year, the Group has adopted, for the first time, the following revised SSAPs which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 11 (revised)	:	Foreign currency translation
SSAP 34 (revised)	:	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practice. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the income statement of subsidiaries operating in overseas are now

translated to Hong Kong dollars at the weighted average exchange rate for the year whereas previously they were translated at the exchange rate at the balance sheet date. The adoption of this SSAP has had no material effect on the results of the current year. Further details of this change are included in the accounting policy for “Translation of Foreign Currencies” in note 2(o) to the financial statements.

SSAP 34 (revised) prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has had no material effect on the financial statements. Additional disclosures are now required in respect of the Group’s share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Listing Rules on the Stock Exchange disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of the SSAP 34 (revised).

**b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30th September.

The results of the subsidiary acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

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



**c) Subsidiaries**

A subsidiary is a company in which the Group or the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Group or the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

**d) Revenue recognition**

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

- (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 costs incurred 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) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**e) Trade receivable**

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

**f) Goodwill**

Goodwill arising from the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of fair values of the identifiable assets and liabilities acquired as the date of acquisition. Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

Goodwill arising from acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful of 10 years. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill/negative goodwill which remains unamortised/has not been recognised in the consolidated income statement and relevant consolidated reserves, as appropriate. Any attributable goodwill/negative goodwill previously eliminated against/credited to the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**g) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss. 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 income statement. Any subsequent revaluation surplus is credited to the 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:

Leasehold land and buildings	Over lease terms
Leasehold improvements	Over lease terms
Motor vehicles	30% – 33 $\frac{1}{3}$ %
Plant and machinery	20%
Furniture, fittings and office equipment	20% – 33 $\frac{1}{3}$ %

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 assets and is recognised in the income statement.

#### **h) Assets under leases**

##### **(i) Finance leases**

At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals or, if lower, at the present value of the minimum lease payment.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the income statement over the periods of the leases so as to produce an approximately constant periodic rate of charge on the remaining balances of the obligation for each accounting period.

Assets held under finance leases are depreciated over the shorter of the lease terms and their estimated useful lives on the same basis as owned assets. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i) to the financial statements.

**(ii) *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 payable under such operating leases are charged to the income statement on the straight-line basis over the periods of the respective leases.

**i) *Impairment of assets***

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

**(i) *Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

**(ii) *Reversal of impairment losses***

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific

external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

**j) Short-term investments**

Short-term investments are investments in equity securities held for trading purpose 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.

**k) 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. Related parties may be individuals or corporate entities.

**l) Inventories**

Stocks are valued at the lower of cost and net realisable value. Cost include cost of purchase of materials computed using the first-in, first-out method, 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.

**m) Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were generally within three months of maturity when acquired. Cash equivalents also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

**n) 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.

**o) Translation of foreign currencies**

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries, operating in overseas are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

Prior to the adoption of the revised SSAP 11 during the year, as explained in note 2(a) to the financial statements, the income statement and cash flow statements of subsidiaries operating overseas were translated to Hong Kong dollars at the exchange rates at the balances sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

**p) Employee benefits**

*(i) Retirement benefit scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employee’s basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in independently administrated funds. The Group’s employer contributions vest fully with the employees when contributed to the Scheme in accordance with the rules of the Scheme.

*(ii) Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under these share option schemes is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in share premium account. Options which are cancelled prior to their exercise dates, or which lapse, are deleted from their registers of outstanding options.

**q) 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 cost incurred to date to the estimated total contract cost 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.

**r) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**s) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

### **3. SEGMENT INFORMATION**

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 management separately, according to the nature of their operations and the products and services provided. Each of the Group's business segment represents a strategic business unit that offers:

- (a) investment in construction, equipment rental and services income;
- (b) investment in retail business;
- (c) investment in trading 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**

	For the year ended 30th September, 2003							Consolidated
	Continuing operations				Discontinued operations			
	Construction services	Retail business	Internet business	Investment holding	Construction, equipment rental and services income	Trading income	Investment holding	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Turnover	60,481	56,357	-	-	-	-	-	116,838
Other revenue	-	88	-	142	-	-	-	230
Total revenue	<u>60,481</u>	<u>56,445</u>	<u>-</u>	<u>142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,068</u>
Segment result	<u>582</u>	<u>(21)</u>	<u>-</u>	<u>39,888</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,449</u>
Interest income								77
Profit from operations								40,526
Finance costs								(4,642)
Profit before taxation								35,884
Taxation								(296)
Profit after taxation								35,588
Minority interests								44
Net profit from ordinary activities attributable to shareholders								<u>35,632</u>
Segment assets	27,800	5,789	-	50,293	-	-	-	83,882
Segment liabilities	<u>25,378</u>	<u>3,026</u>	<u>-</u>	<u>25,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,509</u>
Other segment information:								
Depreciation	317	994	-	98	-	-	-	1,409
Amortisation of goodwill	414	237	-	-	-	-	-	651
Capital expenditure	<u>748</u>	<u>220</u>	<u>-</u>	<u>1,802</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,770</u>

## GROUP

	For the year ended 30th September, 2002							Consolidated HK\$'000
	Continuing operations				Discontinued operations			
	Construction services 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	
Segment revenue:								
Turnover	11,215	21,566	-	3,211	253,446	12,629	196	302,263
Other revenue	204	2	-	2,298	2,831	-	-	5,335
Total revenue	<u>11,419</u>	<u>21,568</u>	<u>-</u>	<u>5,509</u>	<u>256,277</u>	<u>12,629</u>	<u>196</u>	<u>307,598</u>
Segment result	<u>38</u>	<u>(536)</u>	<u>(307)</u>	<u>(72,358)</u>	<u>(29,832)</u>	<u>(3,319)</u>	<u>4,068</u>	<u>(102,246)</u>
Interest income								408
Loss from operations								(101,838)
Finance costs								(12,592)
Share of loss of associated company								(1,285)
Loss before taxation								(115,715)
Taxation								133
Loss after taxation								(115,582)
Minority interests								175
Net loss from ordinary activities attributable to shareholders								<u>(115,407)</u>
Segment assets	23,401	9,533	-	39,734	-	-	-	72,668
Segment liabilities	<u>21,522</u>	<u>6,062</u>	<u>3,171</u>	<u>135,856</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,611</u>
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

## b) Geographical segments

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

	For the year ended 30th September, 2003					
	Continuing operations	Discontinued operations				Consolidated
	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	116,838	-	-	-	-	116,838
Segment results	40,449	-	-	-	-	40,449
Segment assets	83,882	-	-	-	-	83,882
Capital expenditure	2,770	-	-	-	-	2,770

	For the year ended 30th September, 2002					
	Continuing operations	Discontinued operations				Consolidated
	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	(73,572)	(28,379)	686	(1,005)	24	(102,246)
Segment assets	72,668	-	-	-	-	72,668
Capital expenditure	1,543	2,233	134	19	79	4,008

## 4. TURNOVER AND OTHER REVENUE

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

	Continuing operations		Discontinued operations		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>						
Construction, equipment rental and services income	60,481	11,215	-	253,446	60,481	264,661
Trading income	-	-	-	12,629	-	12,629
Retail business	56,357	21,566	-	-	56,357	21,566
Investment holding	-	3,211	-	196	-	3,407
	<u>116,838</u>	<u>35,992</u>	<u>-</u>	<u>266,271</u>	<u>116,838</u>	<u>302,263</u>
<b>Other revenue</b>						
Interest income	77	-	-	408	77	408
Write back of provision for bad debts	56	-	-	-	56	-
Gain on exchange difference	-	-	-	226	-	226
Others	174	2,504	-	2,605	174	5,109
	<u>307</u>	<u>2,504</u>	<u>-</u>	<u>3,239</u>	<u>307</u>	<u>5,743</u>
<b>Total revenue</b>	<u>117,145</u>	<u>38,496</u>	<u>-</u>	<u>269,510</u>	<u>117,145</u>	<u>308,006</u>

## 5. WAIVER OF OTHER LOANS

On 25th July, 2003, the Company entered into a deed of settlement with the lenders of other loans whereas the lenders agreed to accept settlement of the outstanding loans of approximately HK\$56,180,000 by payment of HK\$20,000,000 by the Company. As a result, the Group recorded a gain on waiver of loans of approximately HK\$36,180,000.

**6. GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS**

For the year ended 30th September, 2002, the Group disposed of its entire interest in a subsidiary, namely Sum Cheong Corporation Pte Limited (“Sum Cheong”) which was engaged in the construction business in Singapore to the 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 unaudited results of the discontinued operations up to 30th September, 2002 which are summarised below:

	<i>HK\$'000</i>
Turnover	266,271
Cost of sales	<u>(259,043)</u>
Gross profit	7,228
Other revenue and gains	4,902
Administrative expenses	(30,270)
Other operating expenses	(33,698)
Staff costs	<u>(21,387)</u>
Operating loss from discontinued operations	<u><u>(73,225)</u></u>

**7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS**

**a) Directors' remuneration**

Directors' remuneration, disclosed pursuant to the Listing Rules of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	<b>609</b>	1,673
Retirement benefit scheme contributions	<b>11</b>	24
	<u><b>620</b></u>	<u>1,697</u>

Fees disclosed above include HK\$75,000 (2002: HK\$Nil) paid to independent non-executive directors. There were no other emoluments paid to independent non-executive and non-executive directors. None of the directors has waived the right to receive their emoluments for both years.

The remuneration of the directors falls within the following bands:

	<b>Number of directors</b>	
	<b>2003</b>	2002
HK\$		
0 – 1,000,000	<b>12</b>	3
1,000,001 – 1,500,000	–	1
	<u><b>12</b></u>	<u>4</u>



b) **Five highest paid individuals**

The five highest paid individuals during the year include one director who resigned on 25th July, 2003 (2002: four), details of whose remuneration are set out in note 7(a) to the financial statements.

The details of the remuneration of the five highest paid individuals (including the resigned director) for the year ended 30th September, 2003 and the one highest paid individual for the year ended 30th September, 2002 are disclosed as follows:

	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	<b>2,230</b>	262
Retirement benefit scheme contributions	<b>60</b>	–
	<u><b>2,290</b></u>	<u>262</u>

The remuneration falls within the following bands:

	<b>Number of individuals</b>	
	<b>2003</b>	2002
HK\$		
0 – 1,000,000	<u><b>5</b></u>	<u>1</u>

## 8. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is arrived at after charging/(crediting) the following:

	Continuing operations		Discontinued operations		Consolidated	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of goodwill	757	758	-	-	757	758
Auditors' remuneration	428	138	-	414	428	552
Depreciation:						
Owned assets	1,332	602	-	21,554	1,332	22,156
Assets held under finance lease	77	24	-	-	77	24
Operating lease rentals:						
Land and buildings	704	1,407	-	2,543	704	3,950
Plant and machinery	971	-	-	-	971	-
Provision for trade receivables	-	-	-	3,141	-	3,141
Provision for foreseeable losses						
on contracts in progress	-	-	-	15,796	-	15,796
Provision for stock obsolescence	-	-	-	3,029	-	3,029
Provision for dry-docking expenses	-	-	-	3,711	-	3,711
Provision for permanent diminution in value of investments	-	53,000	-	-	-	53,000
Provision for impairment loss						
on other investments	-	-	-	61	-	61
Exchange loss	-	621	-	-	-	621
Loss (gain) on disposal of fixed assets, net	9	304	-	(1,293)	9	(989)
Provision for amount due from an associate	-	-	-	7,588	-	7,588
Loss on revaluation of listed securities	-	4,889	-	-	-	4,889
Staff cost (including contributions to Mandatory Provident Fund of HK\$633,000 (2002: HK\$63,000))	17,592	3,287	-	21,387	17,592	24,674

## 9. FINANCE COSTS

	<b>Group</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on:		
Other borrowings wholly repayable		
within five years	<b>4,590</b>	3,366
Finance leases	<b>10</b>	465
Trade payables	–	8,552
Bank loans and overdraft wholly		
repayable within five years	<b>42</b>	209
	<u><b>4,642</b></u>	<u>12,592</u>

## 10. TAXATION

The amount of taxation charged to the income statement represents:

	<b>Group</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax		
– Charge for the year	<b>(291)</b>	–
– Underprovision in prior year	<b>(5)</b>	–
	<u><b>(296)</b></u>	<u>–</u>
Overseas taxation		
– Underprovision in prior years	–	(430)
– Share of tax of overseas associated		
companies	–	(359)
Deferred taxation		
– Write-back of deferred overseas tax	–	922
	<u><b>(296)</b></u>	<u>133</u>

Hong Kong Profits tax has been provided for at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Taxation in the balance sheet represents provision for taxation of the current and prior years less the amount of tax paid.

**11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit/(loss) from ordinary activities attributable to shareholders for the year ended 30th September, 2003 dealt with in the financial statements of the Company was approximately HK\$28,560,000 (2002: Loss of approximately HK\$217,494,000).

**12. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings/(loss) per share is based on the net profit of approximately HK\$35,632,000 (2002: Net loss of approximately HK\$115,407,000) attributable to shareholders for the year and on the weighted average of 394,033,000 (2002: 149,064,233) ordinary shares in issue during the year. The weighted average number of shares for the year ended 30th September, 2002 has been adjusted for the effect of the consolidation of the Company's shares.

There was no dilution effect on the basic earnings/(loss) per share for the year ended 30th September, 2003 and 30th September, 2002 respectively as there were no dilutive instruments outstanding during both years.

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fittings and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>						
<b>Cost</b>						
At 1st October, 2002	2,327	1,561	867	2,455	324	7,534
Additions	–	1,828	340	262	340	2,770
Disposal of subsidiaries	–	(1,398)	–	(906)	–	(2,304)
Disposal	–	–	–	(16)	–	(16)
	<u>2,327</u>	<u>1,991</u>	<u>1,207</u>	<u>1,795</u>	<u>664</u>	<u>7,984</u>
At 30th September, 2003	2,327	1,991	1,207	1,795	664	7,984
<b>Accumulated depreciation</b>						
At 1st October, 2002	9	474	265	595	119	1,462
Charge for the year	51	336	192	697	133	1,409
Disposal of subsidiaries	–	(712)	–	(513)	–	(1,225)
Disposal	–	–	–	(8)	–	(8)
	<u>60</u>	<u>98</u>	<u>457</u>	<u>771</u>	<u>252</u>	<u>1,638</u>
At 30th September, 2003	60	98	457	771	252	1,638
<b>Net book value</b>						
At 30th September, 2003	<u>2,267</u>	<u>1,893</u>	<u>750</u>	<u>1,024</u>	<u>412</u>	<u>6,346</u>
At 30th September, 2002	<u>2,318</u>	<u>1,087</u>	<u>602</u>	<u>1,860</u>	<u>205</u>	<u>6,072</u>

	<b>Leasehold improvements</b>	<b>Furniture and fittings</b>	<b>Office equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Company</b>				
<b>Cost</b>				
At 1st October, 2002	–	–	16	16
Additions	1,578	111	112	1,801
Disposals	–	–	(16)	(16)
	<u>–</u>	<u>–</u>	<u>(16)</u>	<u>(16)</u>
At 30th September, 2003	<u>1,578</u>	<u>111</u>	<u>112</u>	<u>1,801</u>
<b>Accumulated depreciation</b>				
At 1st October, 2002	–	–	5	5
Charge for the year	88	4	6	98
Write back on disposals	–	–	(8)	(8)
	<u>–</u>	<u>–</u>	<u>(8)</u>	<u>(8)</u>
At 30th September, 2003	<u>88</u>	<u>4</u>	<u>3</u>	<u>95</u>
<b>Net book value</b>				
<b>At 30th September, 2003</b>	<b><u>1,490</u></b>	<b><u>107</u></b>	<b><u>109</u></b>	<b><u>1,706</u></b>
At 30th September, 2002	<u>–</u>	<u>–</u>	<u>11</u>	<u>11</u>

At 30th September, 2003, motor vehicles with net book value of approximately HK\$107,000 (2002: approximately HK\$205,000) were held under finance leases.

The Group's leasehold land and buildings are situated in Hong Kong and held under medium-term lease. At 30th September, 2003, the leasehold land and buildings were pledged to secure a bank loan granted to a subsidiary.

## 14. GOODWILL

	<i>HK\$'000</i>
<b>Cost</b>	
At 1st October, 2002	7,577
Disposal of a subsidiary	(536)
	<hr/>
At 30th September, 2003	7,041
	<hr/>
<b>Accumulated amortisation</b>	
At 1st October, 2002	758
Charge for the year	757
Disposal of a subsidiary	(107)
	<hr/>
At 30th September, 2003	1,408
	<hr/>
<b>Net book value</b>	
<b>At 30th September, 2003</b>	<b>5,633</b>
	<hr/> <hr/>
At 30th September, 2002	6,819
	<hr/> <hr/>

As at 30th September, 2002, the unamortised goodwill of HK\$6,819,000 was included in note 28 to the financial statements as capital reserve. In the current year, the goodwill has been reclassified as intangible assets in accordance with the accounting policy as stated in note 2(f) to the financial statements. As a result, the comparative figure has been restated accordingly.

## 15. INTEREST IN SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	160,372	160,371
<i>Less:</i> Provision for impairment loss	<u>(119,509)</u>	<u>(119,508)</u>
	40,863	40,863
Amounts due from subsidiaries	229,671	245,479
<i>Less:</i> Provision for doubtful debts	<u>(229,666)</u>	<u>(245,479)</u>
	5	–
Amount due to a subsidiary	<u>(40,863)</u>	<u>(40,863)</u>
	<u>5</u>	<u>–</u>

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

Particulars of the principal subsidiaries as at 30th September, 2003 are as follows:

Name of company	Attributable interest		Place of incorporation/ registration and operations	Nominal value of issued share capital	Principal activities
	to the Company %	to the Group %			
Orient Prize Holdings Inc.	100	–	British Virgin Islands /Hong Kong	US\$100	Investment holding
Total Power Trading Limited	100	–	British Virgin Islands /Hong Kong	US\$1	Investment holding
* Fine Lord Construction Company Limited	–	100	Hong Kong	HK\$13	Provision of engineering works
* Marcello (Tax Free) International Department Store Corporation Limited	–	60	Hong Kong	HK\$2,000,000	Trading as a department store

\* Not audited by Charles Chan, Ip & Fung CPA Ltd.



## 16. INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandised goods, at cost	<u>3,797</u>	<u>4,925</u>

There is no inventory stated at net realisable value.

## 17. AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus attributable profits	33,349	111,643
<i>Less:</i> Progress billings	<u>(40,983)</u>	<u>(114,342)</u>
	<u>(7,634)</u>	<u>(2,699)</u>
Representing:		
Amount due from customers for contract work	3	3,093
Amount due to customers for contract work	<u>(7,637)</u>	<u>(5,792)</u>
	<u>(7,634)</u>	<u>(2,699)</u>

At 30th September, 2003, retention receivable for contract work in progress amounting to approximately HK\$5,332,000 (2002: approximately HK\$5,315,000) has been included in trade receivables.

**18. TRADE RECEIVABLES**

The Group normally allows a credit period of 60 days. An analysis of trade receivables is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
Current to 30 days	<b>8,464</b>	3,842
31 to 60 days	<b>3,936</b>	3,425
61 to 90 days	<b>1,748</b>	352
Over 90 days	–	398
Retention receivable	<b>5,332</b>	5,315
	<b>19,480</b>	13,332

**19. SHORT-TERM INVESTMENTS**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
Listed securities, at market value – Hong Kong	–	230

**20. TRADE PAYABLES**

An aged analysis of trade payables is as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
Current to 30 days	<b>6,514</b>	9,261
31 – 60 days	<b>1,517</b>	8,903
61 – 90 days	–	3
Over 90 days	<b>5,526</b>	1,788
Retention payable	<b>2,752</b>	1,653
	<b>16,309</b>	21,608

**21. DUE TO A FORMER DIRECTOR**

The amount due to a former director was unsecured, interest-free and had no fixed terms of repayment. During the year, the amount due to the former director had been assigned to a third party and reclassified as other payable.

**22. FINANCE LEASE PAYABLE**

	Group			
	2003		2002	
	Minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>	Minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>
Amount payable				
Within one year	35	32	51	48
After one year but within two years	-	-	106	96
	<u>35</u>	<u>32</u>	<u>157</u>	<u>144</u>
Future finance charges on finance leases	<u>(3)</u>	<u>-</u>	<u>(13)</u>	<u>-</u>
Present value of finance lease obligations	<u><u>32</u></u>	<u><u>32</u></u>	<u><u>144</u></u>	<u><u>144</u></u>

## 23. INTEREST-BEARING BANK LOAN

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Secured bank loan repayable		
Within one year or on demand	99	95
In the second year	103	99
In the third to fifth years, inclusive	333	320
After fifth year	465	581
	<u>1,000</u>	<u>1,095</u>
Portion classified as current liabilities	<u>(99)</u>	<u>(95)</u>
Non-current portion	<u>901</u>	<u>1,000</u>

## 24. OTHER BORROWINGS

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Promissory notes				
Repayable with one year	10,470	-	-	-
Repayable after one year but within two years	-	10,941	-	-
Other loans				
Repayable after one year but within two years	-	106,163	-	106,163
	<u>10,470</u>	<u>117,104</u>	<u>-</u>	<u>106,163</u>
<i>Less:</i> Amount repayable within one year classified as current liabilities	<u>(10,470)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current portion	<u>-</u>	<u>117,104</u>	<u>-</u>	<u>106,163</u>

The promissory notes were unsecured, bearing interest at 5% per annum and repayable in June 2004.

## 25. DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred tax assets not provided for in the financial statements are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Accelerated depreciation allowance	(251)	(77)
Tax losses	6,875	6,001
Other timing difference	93	80
	<u>6,717</u>	<u>6,004</u>

The components of the unprovided deferred tax credit for the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Accelerated depreciation allowance	(168)	(63)
Tax losses arising	841	356
Other timing difference	5	80
Effect of change in tax rate	35	–
	<u>713</u>	<u>373</u>

Deferred tax assets arising from tax losses has not been recognised as it is uncertain that such an asset will be crystallised in the foreseeable future.

## 26. ISSUED CAPITAL

	<i>Notes</i>	2003		2002	
		Number	Nominal	Number	Nominal
		of shares '000	value HK\$'000	of shares '000	value HK\$'000
Authorised:					
Ordinary shares of HK\$0.01 each (2002: HK\$0.4 each)					
At 1st October		4,000,000	1,600,000	4,000,000	1,600,000
Share consolidation		(3,600,000)	-	-	-
Increase during the year	(i)	159,600,000	-	-	-
At 30th September		<u>160,000,000</u>	<u>1,600,000</u>	<u>4,000,000</u>	<u>1,600,000</u>
Issued and fully paid:					
At 1st October		1,490,642	596,257	1,490,642	596,257
Decrease pursuant to share consolidation	(i)	(1,341,578)	-	-	-
Capital reduction	(i)	-	(594,766)	-	-
Share subscription	(ii)	1,043,200	10,432	-	-
Share placement	(ii)	298,000	2,980	-	-
At 30th September		<u>1,490,264</u>	<u>14,903</u>	<u>1,490,642</u>	<u>596,257</u>

(i) Pursuant to a special resolution passed at the extraordinary general meeting on 6th February, 2003:

- every ten ordinary shares of HK\$0.40 each in the issued and unissued share capital were consolidated into one ordinary shares of HK\$4.00 each (“Consolidated Share”);
- the nominal value of the issued and unissued Consolidated Shares of HK\$4.00 each was reduced by HK\$3.99 into 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; and
- upon the Capital Reduction becoming effective, the authorised 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 issued by the Company to shareholders dated 13th January, 2003. The Capital Reorganisation was effective on 2nd June, 2003.

- (ii) Pursuant to a conditional subscription agreement dated 20th May, 2003, Silver Rich Macau Development Limited, Spring Wise Investments Limited and Leader Assets Limited 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 (“Share Subscription”) for a total consideration, before related expenses, of approximately HK\$70 million. Pursuant to a placing agreement dated 20th May, 2003, the Company placed 298,000,000 new shares of HK\$0.01 each (the “Placement”) to certain independent investors at a placing price of HK\$0.0671 per share for a total consideration, before related issuance expenses, of approximately HK\$20 million. The net proceeds from the Share Subscription and Placement are used by the Group for repayment of debts and general working capital purposes. The subscription and placing price of HK\$0.0671 per share represented a discount of approximately 41.7% to the closing price of HK\$0.115 per share prior to the suspension of trading of shares as quoted on the Stock Exchange. Further details of the Share Subscription and Placement are set out in the Company’s circular dated 2nd July, 2003. The Share Subscription and Placement were completed on 25th July, 2003 and 31st July, 2003 respectively.

## 27. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2(a) to the financial statements, the detailed disclosures relating to the Group’s share option scheme are now included in notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors and other employees of the Group. The Scheme became effective on 7th March, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the Scheme, the directors of the Company are authorised at their absolute discretion, to invite employee, including any director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of shares in issue as at the date of adoption of the Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent. limit under the Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as “refreshed” par shall not exceed 10 per cent. of the total number of shares in issue as at the date of approval of the limit. Options previously granted under this Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of this Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as “refreshed”.

Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme and any other share option schemes of the Company must not exceed 30 per cent. of the total number of shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of shares in issue.

The subscription price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the subscription price shall not be lower than the highest of (i) the closing price of the shares as stated in the Exchange’s daily



quotations sheet on the offer date, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock's daily quotations sheets for the five (5) trading days immediately preceding the offer date; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a considerations of HK\$1 by the grantee. The exercise period of the share options granted is determined by the board of directors, save that such period shall not be more than a period of ten years from the date of offer.

As at the balance sheet date, no share options has been granted under the Scheme since its adoption.

## 28. RESERVES

### Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st October, 2001	299,073	(11,933)	976	15,485	(12,192)	32,780	(876,103)	(551,914)
Transfer to income statement upon disposal of major subsidiary group of companies	-	11,933	-	(15,485)	12,192	(32,780)	-	(24,140)
Goodwill reserve arising from acquisition of subsidiaries	-	(6,819)	-	-	-	-	-	(6,819)
Net loss for the year	-	-	-	-	-	-	(115,407)	(115,407)
At 30th September, 2002 and 1st October, 2002								
As previously stated	299,073	(6,819)	976	-	-	-	(991,510)	(698,280)
Unamortised goodwill reclassified as intangible assets	-	6,819	-	-	-	-	-	6,819
As restated	299,073	-	976	-	-	-	(991,510)	(691,461)
Capital reduction	-	-	-	-	-	-	594,766	594,766
Subscription of new shares	59,566	-	-	-	-	-	-	59,566
Placing of new shares	17,016	-	-	-	-	-	-	17,016
Share insurance cost	(1,155)	-	-	-	-	-	-	(1,155)
Net profit for the year	-	-	-	-	-	-	35,632	35,632
At 30th September, 2003	<b>374,500</b>	-	<b>976</b>	-	-	-	<b>(361,112)</b>	<b>14,364</b>

Company	Capital			Total
	Share premium	redemption reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st October, 2001	299,073	976	(764,460)	(464,411)
Net loss for the year	–	–	(217,494)	(217,494)
At 30th September, 2002				
and 1st October, 2002	299,073	976	(981,954)	(681,905)
Capital reduction	–	–	594,766	594,766
Subscription of new shares	59,566	–	–	59,566
Placing of new shares	17,016	–	–	17,016
Share insurance cost	(1,155)	–	–	(1,155)
Net profit for the year	–	–	28,560	28,560
At 30th September, 2003	<b>374,500</b>	<b>976</b>	<b>(358,628)</b>	<b>16,848</b>

## 29. ACQUISITION OF SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	–	5,268
Stock	–	3,764
Debtors, deposits and prepayments	–	27,387
Cash and bank balances	–	5,463
Creditors and accrued charges	–	(34,403)
Bank loan – secured	–	(1,117)
Tax payable	–	(502)
	–	5,860
Minority interest	–	(1,436)
	–	4,424
Goodwill on acquisition	–	7,576
	–	12,000
	<u>–</u>	<u>12,000</u>
Satisfied by:		
Term loans	–	1,200
Issue of promissory notes	–	10,800
	–	12,000
	<u>–</u>	<u>12,000</u>
Cash flow on acquisition net of cash acquired:		
Cash and bank balances acquired	–	5,463
Bank loans	–	(1,117)
	–	4,346
	<u>–</u>	<u>4,346</u>

The subsidiaries acquired during last 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 last year. Net liabilities sustained in the subsidiaries acquired during last year as at 30th September, 2002 was approximately HK\$6,791,000.

## 30. DISPOSAL OF SUBSIDIARIES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net (liabilities)/assets disposed of:		
Fixed assets	<b>1,078</b>	98,810
Long term investments	–	23,308
Short-term investments	<b>230</b>	–
Inventory and work in progress	<b>214</b>	24,067
Debtors, deposits and prepayments	<b>154</b>	112,315
Cash and bank balances	<b>46</b>	8,196
Goodwill	<b>535</b>	–
Creditors and accrued charges	<b>(9,016)</b>	(192,855)
Bank overdraft	<b>(119)</b>	–
Minority interests	<b>(116)</b>	–
Long term creditors	–	(26,326)
Taxation	–	(1,006)
Deferred tax	–	(14,501)
Hire purchase and lease creditors	–	(2,792)
	<b>(6,994)</b>	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
	<b>(6,994)</b>	(44,551)
Gain on disposal of subsidiaries	<b>7,984</b>	44,551
	<b>990</b>	–

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Satisfied by:		
Partial settlement of promissory note payable	990	–
Cash consideration (S\$1.00)	–	–
	<u>990</u>	<u>–</u>
Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash and bank balances disposed of with the subsidiaries	(46)	(8,196)
Bank overdraft disposed of with the subsidiaries	119	–
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	<u>73</u>	<u>(8,196)</u>

The subsidiaries disposed of during the year contributed approximately HK\$2,058,000 (2002: approximately HK\$266,271,000) to the Group's turnover and a loss of approximately HK\$886,000 (2002: approximately HK\$83,649,000) to the Group.

### 31. CONTINGENT LIABILITIES

- a) The Company is the guarantor for promissory notes issued by its subsidiary. The promissory notes and interest payable as at 30th September, 2003 amounted to approximately HK\$10,470,000 (2002: HK\$10,941,000).
- b) At the balance sheet date, the Group did not have any contingent liabilities.

## 32. COMMITMENTS

## a) Capital commitments

	<b>Group</b>	
	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for	—	40

The Company had no capital commitments as at 30th September, 2003 and 2002.

## b) Operating lease commitments

At the balance sheet date, the Group had the following commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,199	985	419	30
In the second to fifth years, inclusive	1,417	1,296	762	10
	<u>2,616</u>	<u>2,281</u>	<u>1,181</u>	<u>40</u>

## 33. 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), together with attorneys’ fees and costs. The claim is related to a sum 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 summons and the related documents on 21st September, 2001. 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, 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.

#### **34. POST BALANCE SHEET EVENTS**

- (i) On 3rd November, 2003, the Company entered into a placing agreement (the "Placing Agreement") with an independent placing agent in relation to the placing of 97,200,000 new shares of HK\$0.01 each in the Company, on a best effort basis, at a placing price of HK\$0.4325 per share, amounting to a total consideration of approximately HK\$42 million. The Placing Agreement was completed on 17th November, 2003.
  
- (ii) On 9th December, 2003, Access Success Developments Limited ("Access Success"), a wholly-owned subsidiary of the Company together with two independent third parties, namely Summit Global International Limited and Mantovana Holdings Limited ("the Purchasers") entered into a conditional agreement to acquire 55%, 30% and 15% interest in a cruise ship and inventories for a total consideration of approximately HK\$94.6 million of which HK\$52 million shall be paid by Access Success. On the same date, the Purchasers entered into a memorandum to lease the cruise ship and inventories to the cruise operator for a period of 36 months commencing from the date of delivery of the cruise ship by the Purchasers to the cruise operator. Details of the transactions are set out in the circular dated 24th December, 2003 issued by the Company. The transactions have been completed on 12th January, 2004.

#### **35. COMPARATIVE FIGURES**

As further explained in note 2(a) to the financial statements, due to the adoption of certain revised SSAPs during the current year, the presentation of certain items and balance in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

**2B. Six months ended 31st March, 2004**

Set out below is the unaudited financial statements of the Group for the six months ended 31st March, 2004. In respect of the notes to the financial statements, references to page numbers are the page numbers of the interim report of the Company for the six months ended 31st March, 2004:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 31st March, 2004*

		<b>Unaudited</b>	
		<b>Six months ended 31st March,</b>	
		<b>2004</b>	2003
			(Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>104,777</b>	50,550
Cost of sales		<b>(47,415)</b>	(29,925)
Gross profit		<b>57,362</b>	20,625
Other revenue		<b>4,527</b>	190
		<b>61,889</b>	20,815
Selling expenses		<b>(33,849)</b>	(16,428)
Administrative expenses		<b>(17,779)</b>	(6,527)
Other operating expenses		<b>(145)</b>	(587)
(Loss)/gain on disposal of subsidiaries	3	<b>(205)</b>	4,629
Profit from operations	4	<b>9,911</b>	1,902
Finance costs		<b>(267)</b>	(3,253)
Profit/(loss) before taxation		<b>9,644</b>	(1,351)
Taxation	5	<b>(629)</b>	(2)
Profit/(loss) after taxation		<b>9,015</b>	(1,353)
Minority interests		<b>(4,701)</b>	(44)
Net profit/(loss) from ordinary activities attributable to shareholders		<b>4,314</b>	(1,397)
Earnings/(loss) per share			
– Basic	6	<b>HK\$0.3 cents</b>	HK\$(0.9 cents)
– Diluted		<b>N/A</b>	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st March, 2004

		(Unaudited) 31st March, 2004	(Audited) 30th September, 2003 (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Goodwill	7	3,421	5,633
Property, plant and equipment	7	98,577	6,346
Deferred tax assets	10	214	–
Investment securities	7	2,500	–
		<u>104,712</u>	<u>11,979</u>
<b>CURRENT ASSETS</b>			
Inventories		7,970	3,797
Amounts due from customers for contract works		–	3
Trade receivables	8	1,690	19,480
Deposits, prepayment and other receivables		3,993	1,265
Cash and bank balances		30,133	47,358
		<u>43,786</u>	<u>71,903</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to customers for contract works		–	(7,637)
Trade payables	9	(208)	(16,309)
Other payables and accruals		(23,732)	(17,756)
Tax payable		(893)	(305)
Current portion of finance lease payable		–	(32)
Current portion of interest-bearing bank loan		–	(99)
Other borrowings		(4,841)	(10,470)
		<u>(29,674)</u>	<u>(52,608)</u>
<b>NET CURRENT ASSETS</b>		<u>14,112</u>	<u>19,295</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>118,824</b>	<b>31,274</b>

**APPENDIX III****FINANCIAL INFORMATION**

		(Unaudited) 31st March, 2004	(Audited) 30th September, 2003 (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loan		–	(901)
Deferred tax liabilities	<i>10</i>	<u>(266)</u>	<u>(11)</u>
		<b>(266)</b>	(912)
<b>MINORITY INTERESTS</b>			
		<u>(43,547)</u>	<u>(1,106)</u>
<b>NET ASSETS</b>			
		<u><b>75,011</b></u>	<u>29,256</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	<i>11</i>	<b>15,875</b>	14,903
Reserves		<u><b>59,136</b></u>	<u>14,353</u>
		<u><b>75,011</b></u>	<u>29,256</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 31st March, 2004*

	Unaudited	
	Six months ended 31st March,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	<b>3,172</b>	(1,353)
Net cash (used in)/generated from investing activities	<b>(100,425)</b>	32,097
Net cash generated from/(used in) financing activities	<b>80,028</b>	(31,956)
Net decrease in cash and cash equivalents	<b>(17,225)</b>	(1,212)
Cash and cash equivalents at beginning of the period	<b>47,358</b>	4,774
Cash and cash equivalents at end of the period, representing cash and bank balances	<b>30,133</b>	3,562

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March, 2004

	Unaudited					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserves HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	
At 1st October, 2002						
– as previously reported	596,257	299,073	(6,819)	976	(991,510)	(102,023)
– unamortized goodwill reclassified as intangible assets	–	–	6,819	–	–	6,819
– as restated	596,257	299,073	–	976	(991,510)	(95,204)
Net loss for the period	–	–	–	–	(1,397)	(1,397)
At 31st March, 2003	596,257	299,073	–	976	(992,907)	(96,601)
At 1st October, 2003						
– as previously reported	14,903	374,500	–	976	(361,112)	29,267
– adjustment on adoption of SSAP 12 (revised)	–	–	–	–	(11)	(11)
– as restated	14,903	374,500	–	976	(361,123)	29,256
Placing of new shares	972	41,067	–	–	–	42,039
Share issuance costs	–	(598)	–	–	–	(598)
Net profit for the period	–	–	–	–	4,314	4,314
At 31st March, 2004	15,875	414,969	–	976	(356,809)	75,011

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 31st March, 2004*

**1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of the Hong Kong Limited. This interim report should be read in conjunction with the annual financial statements for the year ended 30th September, 2003.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 30th September, 2003, except that the Group has changed its accounting policy following the adoption of the revised SSAP 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January, 2003, and the adoption of the new accounting policy for investment securities.

**Deferred taxation**

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an

asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, the accumulated losses at 1st October, 2003 have been increased by approximately HK\$11,000 which represents the previously unprovided deferred tax liabilities. In addition, the loss for the six months ended 31st March, 2003 has been reduced by approximately HK\$3,000.

**Investment securities**

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

## 2. SEGMENTAL INFORMATION

The Group's turnover and results for the six months ended 31st March, 2004 analysed by business segments and geographical segments are as follows:

**Business segments**

*For the six months ended 31st March, 2004*

	Continuing operations				Discontinuing operations	Consolidated HK\$'000
	Cruise leasing and management HK\$'000 Notes (a) and (b)	Travel HK\$'000 Note (c)	Retail HK\$'000 Note (d)	Investment holding HK\$'000	Construction services HK\$'000 Note (e)	
Turnover	12,118	1,328	66,284	–	25,047	104,777
Other revenue	–	–	248	4,279	–	4,527
	<u>12,118</u>	<u>1,328</u>	<u>66,532</u>	<u>4,279</u>	<u>25,047</u>	<u>109,304</u>
Segment results	<u>8,291</u>	<u>(295)</u>	<u>3,076</u>	<u>(1,454)</u>	<u>293</u>	<u>9,911</u>
Finance costs						<u>(267)</u>
Profit before taxation						<u>9,644</u>

For the six months ended 31st March, 2003

	Continuing operations			Consolidated HK\$'000
	Retail HK\$'000 Note (d)	Investment holding HK\$'000	Construction services HK\$'000 Note (e)	
Turnover	34,119	–	16,431	50,550
Other revenue	40	142	8	190
	<u>34,159</u>	<u>142</u>	<u>16,439</u>	<u>50,740</u>
Segment results	<u>(265)</u>	<u>2,945</u>	<u>(778)</u>	1,902
Finance costs				<u>(3,253)</u>
Loss before taxation				<u>(1,351)</u>

#### Geographical segments

For the six months ended 31st March, 2004

	Turnover		Segment results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	92,659	50,550	1,620	1,902
South China Sea, other than in Hong Kong	12,118	–	8,291	–
	<u>104,777</u>	<u>50,550</u>	<u>9,911</u>	<u>1,902</u>

Notes:

- a) On 9th December, 2003, Access Success Developments Limited (“Access Success”), a wholly owned subsidiary of the Company, together with two independent third parties (the “Purchasers”) entered into a conditional agreement to acquire 55%, 30% and 15% interest in a cruise ship and inventories respectively for a total consideration of approximately HK\$94.6 million of which HK\$52 million shall be paid by Access Success. On the same



date, the Purchasers entered into a memorandum to lease the cruise ship and inventories to a cruise operator (“Cruise Operator”) for a period of 36 months commencing from the date of delivery of the cruise ship by the Purchasers to the Cruise Operator. Details of the transactions are set out in the circular dated 24th December, 2003 issued by the Company. The transactions have been completed on 12th January, 2004.

- b) On 10th March, 2004, Capture Success Limited, a subsidiary of the Group entered into an agreement to acquire the entire issued share capital of Hover Management Limited (“Hover”), a company incorporated in Hong Kong for a consideration of HK\$1. Hover is principally engaged in the management of the cruise ship owned by the Group. The fair value of the net identifiable liabilities of Hover attributable to the Group at the date of acquisition was approximately HK\$1,250,000. The resulting goodwill of approximately HK\$1,250,000 will be amortised on a straight-line basis over 10 years.

The assets and liabilities arising from the acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	2,517
Cash and bank balances	2,315
Prepayment and deposits paid	1,075
Inventory	554
Trade payables	(7)
Other payables and accruals	(8,727)
Minority interest	1,023
	<hr/>
	(1,250)
Goodwill	1,250
	<hr/>
Total purchase consideration	<u><u>–</u></u>

- c) In October 2003, the Group formed a subsidiary to engage in the travel agency business which includes selling of air tickets and hotel packages.
- d) On 12th March, 2004, a wholly owned subsidiary entered into an agreement to dispose of its entire 60% interest in the issued capital of Marcello (Tax Free) International Department Store Corporation Limited (“Marcello”) at a consideration of HK\$8,200,000. The principal activity of Marcello is trading as a department store. The disposal is scheduled to complete on or before 30th June, 2004. The details of the disposal are set out in note 15 to the condensed financial statements.
- e) On 26th March, 2004, a wholly owned subsidiary entered into an agreement to dispose of a wholly owned subsidiary namely Fine Lord Construction Company Limited (“Fine Lord”) at a consideration of HK\$5,800,000. Fine Lord was engaged in the business of construction services. The details of the disposal are set out in note 13 to the condensed financial statements.

### 3. (LOSS)/GAIN ON DISPOSAL OF SUBSIDIARIES

During the six months ended 31st March, 2004, the Group disposed of its entire interest in Fine Lord Construction Company Limited, Total Power Trading Limited, Gain Source Limited for a total consideration of approximately HK\$5,800,000 and recorded a loss of approximately HK\$205,000 on the disposals. The disposal of Fine Lord constitutes a connected transaction. The details of which are set out in note 13 to the condensed financial statements.

During the six months ended 31st March, 2003, the Company disposed of its entire interest in Denton Capital Investments Limited with net liabilities of approximately HK\$4,629,000 at the date of disposal for a consideration of HK\$1.

### 4. PROFIT FROM OPERATIONS

Profit from operations is arrived at after (crediting)/charging the following:

	<b>Six months ended 31st March,</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Crediting:</b>		
Interest income	(144)	–
Write back of long outstanding payables	(1,764)	–
Exchange gain	(210)	–
Reverse of overprovision for litigation	(2,075)	–
<b>Charging:</b>		
Auditors' remuneration	77	–
Depreciation and amortisation		
– owned assets	2,049	769
– assets held under finance lease	–	34
Amortisation of goodwill included in other operating expense	145	379
	<u>145</u>	<u>379</u>

## 5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. The amount of taxation in the condensed consolidated income statement represents:

	<b>Six months ended 31st March,</b>	
	<b>2004</b>	2003
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current taxation	<b>588</b>	5
Deferred taxation	<b>41</b>	(3)
	<hr/>	<hr/>
Tax charge	<b><u>629</u></b>	<u>2</u>

## 6. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit/(loss) from ordinary activities attributable to shareholders of approximately HK\$4,314,000 (loss of HK\$1,397,000 for the six months ended 31st March, 2003) and on the weighted average of 1,562,500,299 ordinary shares (149,064,233 ordinary shares for the six months ended 31st March, 2003) in issue during the period. The weighted average number of shares for the six months ended 31st March, 2003 has been adjusted for the effect of consolidation of the Company's shares.

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

## 7. NON-CURRENT ASSETS

	<b>Goodwill</b>	<b>Property, plant and equipment</b>	<b>Investment securities</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening net book value	5,633	6,346	–
Additions	–	95,378	2,500
Acquisition of a subsidiary	1,250	2,517	–
Amortisation	(145)	–	–
Depreciation	–	(2,049)	–
Disposals of subsidiaries	(3,317)	(3,615)	–
	<hr/>	<hr/>	<hr/>
Closing net book value	<b><u>3,421</u></b>	<b><u>98,577</u></b>	<b><u>2,500</u></b>

**8. TRADE RECEIVABLES**

The credit term granted by the Group to its trade customers normally ranges from 30 to 60 days. An aged analysis of trade receivables is as follows:

	<b>31st March, 2004 HK\$'000</b>	30th September, 2003 HK\$'000
Current to 30 days	<b>1,609</b>	8,464
31 to 60 days	<b>81</b>	3,936
61 to 90 days	–	1,748
Retention receivable	–	5,332
	<u><b>1,690</b></u>	<u>19,480</u>

**9. TRADE PAYABLES**

An aged analysis of trade payables is as follows:

	<b>31st March, 2004 HK\$'000</b>	30th September, 2003 HK\$'000
Current to 30 days	<b>157</b>	6,514
31 to 60 days	<b>41</b>	1,517
61 to 90 days	<b>5</b>	–
Over 90 days	<b>5</b>	5,526
Retention payable	–	2,752
	<u><b>208</b></u>	<u>16,309</u>

**10. DEFERRED TAXATION**

Deferred taxation is calculated in full on temporary differences under the liability method using a tax rate of 17.5% (2003: 17.5%).

- a) The movement in deferred tax (assets) and liabilities during the period is as follows:

	Deferred tax liabilities		Deferred tax assets		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At beginning of the period	11	-	-	-	11	-
Charged to the income statement	255	-	(214)	(3)	41	(3)
At end of the period	<u>266</u>	<u>-</u>	<u>(214)</u>	<u>(3)</u>	<u>52</u>	<u>(3)</u>

- b) The Group has not recognised deferred tax assets approximately HK\$6,927,000 and HK\$6,445,000 in respect of tax losses as at 31st March, 2004 and 2003.

## 11. SHARE CAPITAL

	31st March, 2004		30th September, 2003	
	Number	Nominal	Number	Nominal
	of shares '000	value HK\$'000	of shares '000	value HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each (2002: HK\$0.4 each)				
At beginning of the period	160,000,000	1,600,000	4,000,000	1,600,000
Share consolidation	-	-	(3,600,000)	-
Increase during the period	-	-	159,600,000	-
At end of the period	<u>160,000,000</u>	<u>1,600,000</u>	<u>160,000,000</u>	<u>1,600,000</u>
Issued and fully paid:				
At beginning of the period	1,490,264	14,903	1,490,642	596,257
Decrease pursuant to share consolidation	-	-	(1,341,578)	-
Capital reduction	-	-	-	(594,766)
Share subscription	-	-	1,043,200	10,432
Share placement ( <i>Note</i> )	97,200	972	298,000	2,980
At end of the period	<u>1,587,464</u>	<u>15,875</u>	<u>1,490,264</u>	<u>14,903</u>

*Note:*

On 3rd November, 2003, the Company entered into a placing agreement ("Placing Agreement") with an independent placing agent in relation to the placing of 97,200,000 new shares of HK\$0.01 each in the Company, on a best effort basis, at a placing price of HK\$0.4325 per share, amounting to a total consideration of approximately HK\$42 million. The Placing Agreement was completed on 17th November, 2003.

## 12. CAPITAL COMMITMENTS

## a) Operating lease commitments

At the balance sheet date, the Group had the following commitments for future lease payment under non-cancellable operating leases which fall due as follows:

	Group		Company	
	31st March, 2004	30th September, 2003	31st March, 2004	30th September, 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,861	1,199	457	419
In the second to fifth years, inclusive	1,742	1,417	552	762
	<u>3,603</u>	<u>2,616</u>	<u>1,009</u>	<u>1,181</u>

## b) Capital commitments

At 31st March, 2003 and 2004, the Group had no capital commitments.

## 13. SIGNIFICANT RELATED PARTY TRANSACTIONS

On 26th March, 2004, a wholly owned subsidiary entered into an agreement to dispose of a wholly owned subsidiary namely Fine Lord Construction Company Limited ("Fine Lord") at a consideration of HK\$5,800,000. The purchaser, Mr. Chan Chung Chiu ("Mr. Chan"), is a director of Fine Lord. Therefore, the transaction constitutes a connected transaction. The consideration was arrived at after arm's length negotiations between the Company and Mr. Chan. The consideration was satisfied by the release of a promissory note with outstanding amount of approximately HK\$5,873,000. Details of this transaction were set out in an announcement of the Company dated 31st March, 2004.

**14. LITIGATION**

In April 2004, the Company paid USD375,000 to 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, to settle the 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. A provision of HK\$5,000,000 was made in prior years, as such, the overprovision of approximately HK\$2,075,000 was reversed and included in other revenue during the period.

**15. POST BALANCE SHEET EVENTS**

On 12th March, 2004, a wholly owned subsidiary entered into an agreement to dispose of its entire 60% interest in the issued capital of Marcello (Tax Free) International Department Store Corporation Limited (“Marcello”) at a consideration of HK\$8,200,000. The disposal is scheduled to complete on or before 30th June, 2004.



**CCIF****INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF MACAU SUCCESS LIMITED****INTRODUCTION**

We have been instructed by the Company to review the interim financial report set out on pages 3 to 21.

**DIRECTORS' RESPONSIBILITIES**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**REVIEW WORK PERFORMED**

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 31st March, 2004.

**Charles Chan, Ip & Fung CPA Ltd.**

*Certified Public Accountants*

Hong Kong, 24th June, 2004

**Chan Wai Dune, Charles**

*Practising Certificate Number P00712*

**3. AUDITORS' REPORTS OF THE COMPANY FOR THE FIFTEEN MONTHS ENDED 30TH SEPTEMBER, 2001 AND FOR THE YEAR ENDED 30TH SEPTEMBER, 2002****3A. Fifteen months ended 30th September, 2001**

Set out below is the auditors' report of the Company as extracted from the annual report of the Company for the fifteen months ended 30th September, 2001. In respect of the notes to the financial statements, references to page numbers are the page numbers of the annual report of the Company for the fifteen months ended 30th September, 2001:

**TO THE SHAREHOLDERS OF CHINA DEVELOPMENT CORPORATION LIMITED**  
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 21 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Fundamental uncertainty relating to the going concern basis**

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and have considered the adequacy of the disclosure made in the financial statements as follows:

(a) ***Significant uncertainty concerning the ability of the Company and the Group to continue as a going concern***

The Company and the Group incurred a net loss of HK\$213,248,000 and HK\$329,251,000 respectively for the period from 1st July, 2000 to 30th September, 2001, and as at 30th September, 2001 the Company's current liabilities exceeded its current assets by HK\$47,550,000 while the Group's current liabilities exceeded its current assets by HK\$139,254,000. The ability of the Company and the Group to continue as a going concern will depend upon future funding being available and the settlement negotiation with a major supplier who has issued a demand letter for full repayment of the amount outstanding as detailed in (b) below. However, the evidence available to us was limited and there were no satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the ability of the Company and the Group to continue as a going-concern.

(b) ***Significant uncertainty regarding the outcome of negotiation with the Group's major supplier***

The Group had a trade credit facility amounting to S\$25,000,000 or HK\$110,347,500 as at 30th September, 2001 (30th June, 2000: S\$25,000,000 or HK\$112,487,000) from a major supplier. This facility is secured by a corporate guarantee by the Company and a subsidiary company, and debentures comprising fixed and floating charges over all the assets of the relevant subsidiary companies. As at 30th September, 2001, the trade credit facility was utilised by the relevant subsidiary companies amounted to S\$16,273,000 or HK\$71,843,000 and this amount is included in creditors and accrual charges in the balance sheet.

Subsequent to the balance sheet date, the Group received from the major supplier's lawyers a demand letter for the full repayment of the amount outstanding. As at the date of this report, the major supplier has not taken legal action against the Group as negotiation for settlement is still being discussed with the Group. The ability of the Company and the Group to continue as a going concern will depend upon the outcome of the negotiation. The financial statements do not include any adjustments that would result from a failure to reach any agreement for the settlement.

(c) *Significant uncertainty regarding the outcome of the proposed management buy-out*

Subsequent to the balance sheet date, the Company has entered into negotiation with management of a major group of subsidiary companies about a management buy-out of the relevant group of subsidiary companies. The effect of the management buy-out if successfully completed would be that the Company shall be released from all corporate guarantees given on behalf of the group of subsidiary companies but at the same time the Company would lose ownership and control of the relevant group of subsidiary companies. As the negotiation is still in progress, the financial statements do not include any adjustments that would result from the conclusion of the management buy-out.

**QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS**

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th September, 2001 and of its loss and cash flows for the period from 1st July, 2000 to 30th September, 2001. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Ordinance.

**3B. Year ended 30th September, 2002**

Set out below is the auditors' report of the Company as extracted from the annual report of the Company for the year ended 30th September, 2002. In respect of the notes to the financial statements, references to page numbers are the page numbers of the annual report of the Company for the year ended 30th September, 2002:

**TO THE SHAREHOLDERS OF CHINA DEVELOPMENT CORPORATION LIMITED**  
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 17 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement.

**Fundamental uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the Company and the Group continue as a going concern. 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. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

**Limitation of audit scope relating to discontinuing operations**

The audited financial statements of the disposed group of subsidiaries of the Company incorporated and operating principally in Singapore ("the Disposed group") for the period up to the date of disposal have not been made available to either the Company or ourselves. Consequently, the Company has consolidated the Disposed group based upon the unaudited management accounts as the Company has been able to obtain, but we have not been provided with adequate audit evidence to satisfy ourselves as to the nature, completeness, appropriateness, classification and disclosure in respect of the transactions undertaken by the Disposed group for the period from 1st October, 2001 up to the date when the Company ceased to exercise control over its entire interests in the Disposed group ("the Said Period"), as included in the consolidated financial statements.

For the same reasons, we have been unable to satisfy ourselves that certain disclosures which have incorporated amounts in relation to the Disposed group as included in the notes to financial statements are fairly stated.

Any adjustments that might have been found to be necessary in respect of the matters set out above would have a consequential impact on the Group's net loss and cash flows for the year ended 30th September, 2002, and on the classification of such items and their related disclosures in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Qualified opinion arising from limitation of audit scope**

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the operating results and cash flows of the Disposed group, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th September, 2002 and of the loss and cash flow of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to the operating results and cash flows of the Disposed group:

- a) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- b) we were unable to determine whether proper books of account had been kept.



(A) *Set out below are the texts of the letter and valuation certificate received from Sallmanns (Far East) Limited, an independent property valuer, in connection with its valuation as at 31st July, 2004 of the property interest of the Group.*

**Sallmanns**

Corporate valuation and consultancy  
www.sallmanns.com

22nd Floor, Sui On Centre  
188 Lockhart Road  
Wanchai, Hong Kong  
Tel: (852) 2169 6000  
Fax: (852) 2528 5079

27th August, 2004

The Board of Directors  
Macau Success Limited  
Units 1002-05A, 10th Floor  
West Tower  
Shun Tak Centre  
200 Connaught Road Central  
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which Macau Success Limited (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the property interests as at 31st July, 2004 (the “date of valuation”).

Our valuations of the property interests represent the open market value which we would define as intended to mean “an opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:–

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

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

We have valued the property interests by the direct comparison method assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

We have attributed no commercial value to the property interests which are leased by the Group due mainly to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing those property interests in Hong Kong held under Government Leases expiring before 30th June, 1997, we have taken account of the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People’s Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30th June, 2047 and that a rent of three per cent of the then rateable value is charged per annum from the date of extension.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not been provided with copies of the title documents and lease agreements relating to the property interests but have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify ownership or to ascertain any amendment.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary sums stated in this report are in Hong Kong Dollars.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**Sallmanns (Far East) Limited**  
**Paul L. Brown**  
*B.Sc. FRICS FHKIS*  
*Director*

*Note:* Paul L. Brown is a Chartered Surveyor who has 21 years' experience in the valuation of properties in the PRC and 24 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

**SUMMARY OF VALUES**

**Property interests rented and occupied by the Group in Hong Kong**

<b>No.</b>	<b>Property</b>	<b>Open Market Value in existing state as at 31st July, 2004 HK\$</b>
1.	Units 1002-05A 10th Floor West Tower Shun Tak Centre 200 Connaught Road Central Hong Kong	No Commercial Value
2.	Units 411-413 4th Floor New Mandarin Plaza (Tower A) No. 14 Science Museum Road Tsim Sha Tsui Kowloon Hong Kong	No Commercial Value
<b>Total:</b>		<hr/> <b>Nil</b> <hr/>

## VALUATION CERTIFICATE

## Property interests rented and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 31st July, 2004 HK\$
1. Units 1002-05A, 10th Floor West Tower Shun Tak Centre 200 Connaught Road Central Hong Kong	<p>The property comprises 4 units on the 10th floor of a 39-storey office building completed in about 1985.</p> <p>The property has a total gross floor area of approximately 4,761 sq.ft.</p> <p>The property is rented to China Development Corporation Limited (now known as Macau Success Limited) from an independent third party for a term commencing from 25th July, 2003 and expiring on 15th June, 2006 at a monthly rent of HK\$38,088 exclusive of rates, management fees, air-conditioning fees and other outgoings.</p>	The property is currently occupied by the Group for office purposes.	No commercial value

*Notes:*

1. The owner of the property is Newman Investment Company Limited.
2. The Tenancy Agreement of the property has been duly stamped with the Stamp Duty Office.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 31st July, 2004 HK\$
2. Units 411-413 4th Floor New Mandarin Plaza (Tower A) No. 14 Science Museum Road Tsim Sha Tsui Kowloon Hong Kong	<p>The property comprises 3 unit on the 4th floor of a 13-storey commercial building completed in about 1982.</p> <p>The property has a total gross floor area of approximately 3,249 sq.ft.</p> <p>The property is rented to Hover Management Limited from an independent third party for a term of 3 years commencing from 16th November, 2003 and expiring on 15th November, 2006 at the monthly rent of HK\$38,988, exclusive of air-conditioning charges, management fees, government rates, government rent and other outgoings.</p>	The property is currently occupied by the Group for office purposes.	No commercial value

*Notes:*

1. Hover Management Limited is indirectly owned as to 55% by the Company.
2. The owner of the property is Asia-HK Investment Limited.
3. The Tenancy Agreement of the property has been duly stamped with the Stamp Duty office.

**RESPONSIBILITY STATEMENT**

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

**DISCLOSURE OF INTERESTS****(a) Directors' 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:–

*Interests in the Shares*

<b>Name</b>	<b>Long position/ Short position</b>	<b>Nature of interest</b>	<b>Number of Shares</b>	<b>Approximate percentage of shareholding</b>
Mr. Yeung ( <i>Note 1</i> )	Long position	Corporate interest	646,330,716	40.71%
Mr. Chan William ( <i>Note 2</i> )	Long position	Corporate interest	258,856,716	16.31%

*Notes:* 1. Mr. Yeung is deemed to have corporate interest in 646,330,716 Shares by virtue of the interest of the Shares held by Silver Rich, which is wholly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Yeung.

2. Mr. Chan William is deemed to have corporate interest in 258,856,716 Shares by virtue of his interest in the entire issued share capital of Spring Wise.

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	Long position	Corporate interest	646,330,716	40.71%
Spring Wise	Long position	Corporate interest	258,856,716	16.31%
Mr. Chan Hon Keung (Note)	Long position	Corporate interest	258,856,716	16.31%

*Note:* Mr. Chan Hon Keung is deemed to have corporate interest in 258,856,716 Shares by virtue of his interest in the issued share capital of Spring Wise.



*Long positions in other members of the Group*

<b>Name of subsidiaries of the Company</b>	<b>Name of substantial Shareholders</b>	<b>Number of shares</b>	<b>Approximate percentage of the total issued share capital of the subsidiaries of the Company</b>
Capture Success	Summit Global International Limited	30	30%
Capture Success	Mantovana Holdings Limited	15	15%

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) 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 any interest, direct or indirect, in any assets which since 30th September, 2003, 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.

Save as disclosed herein, as at the Latest Practicable Date, the Company had not granted to any Director or director or chief executive of any other member of the Group or to their spouses or children under 18 years of age or any of them any right to subscribe for securities in, or debentures of, the Newco, the Company or any of their respective associated corporations within the meaning of Part XV of the SFO.

Upon the implementation of the Scheme and on the assumption that there is no change to the number of and their interests in the Shares between the Latest Practicable Date and the Record Time, the interests of the Directors in the securities of the Company or any associated corporation (within the meaning of the Part XV of the SFO) will be the same as their respective interests in the Shares as set out above except that the above reference to their interests in the Shares shall be changed to their interests in the Newco Shares.

- (f) Save as disclosed herein, none of the Directors has a service contract with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

The aggregate Directors' fees and the aggregate Directors' basic salaries, housing allowances and other allowances, benefits in kind, bonuses and pensions paid and to be paid by the Group for the year ending 30th September, 2004 are estimated to be approximately HK\$0.8 million.

- (g) Save as disclosed herein, none of the Directors and the professional advisers named under the section headed "Consents" in this Appendix had any direct or indirect material interest in any assets which were, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to or by or proposed to be acquired or disposed of by or leased to or by any member of the Group.
- (h) Save as disclosed herein, there were no significant contracts or arrangements subsisting as at the Latest Practicable Date in which any of the Directors is, directly or indirectly, materially interested.
- (i) Save as disclosed herein, none of the Directors and the professional advisers named under the section headed "Consents" in this Appendix received any commissions, discounts, brokerages or other special terms granted within the two years immediately preceding the date of this document in connection with the issue or sale of any capital of any member of the Group.
- (j) Save as disclosed herein, none of the professional advisers named in the section headed "Consents" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities in any member of the Group.

**LITIGATION**

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Company or any of its subsidiaries.

**EXPENSES**

All expenses in relation to the Proposed Reorganisation incurred and to be incurred by the Company, including legal, accounting and advisory fees, printing costs, listing fees and other expenses, have been or will be borne by the Company and are estimated to amount to approximately HK\$2.4 million.

**CONSENTS**

Sallmanns (Far East) Limited and Conyers Dill & Pearman have given and have not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and letters, as the case may be, and references to their names in the form and context in which they respectively appear.

The following are the qualifications of the professional advisers who have given opinions or advice which are contained in this document:

<b>Names</b>	<b>Qualifications</b>
Sallmanns (Far East) Limited	Property valuer
Conyers Dill & Pearman	Bermuda barristers and attorneys

**MATERIAL CONTRACTS**

In the two years immediately preceding the date of this document, the following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Company or its subsidiaries which are or may be material:

- (1) 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 therein contained;
- (2) A sale and purchase agreement dated 17th April, 2003 entered into between the Company, Orient Prize Holdings Inc. (“Orient Prize”), a wholly-owned subsidiary of the Company, as vendor and Mr. Hu Hai Lin as purchaser in respect of the sale and purchase of the entire issued capital of Marcello Foods Limited upon the terms and conditions therein contained;
- (3) 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 made between the parties thereto;
- (4) the subscription agreement dated 20th May, 2003 entered into between the Company and Silver Rich, Spring Wise and Leader Assets Limited 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 made between the parties thereto;
- (5) 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 made between the parties thereto;
- (6) a conditional sale and purchase agreement dated 9th December, 2003 entered into between Kong Wing Limited, as vendor and Access Success Developments Limited, Summit Global International Limited and Mantovana Holdings Limited (collectively the “Purchasers”) as purchasers in respect of the sale and purchase of the Cruise Ship and certain inventories upon the terms and conditions therein contained;

- (7) a sale and purchase agreement dated 10th March, 2004 entered into between Capture Success, a 55% owned subsidiary of the Company, as purchaser and Hover Management Limited, a company incorporated in the British Virgin Islands, as vendor in respect of the sale and purchase of the entire issued capital of Hover Management Limited, a company incorporated in Hong Kong, upon the terms and conditions therein contained;
- (8) a sale and purchase agreement dated 12th March, 2004 entered into between Orient Prize as vendor and China Age Investments Limited as purchaser in respect of the sale and purchase of the 60% equity interest in Marcello (Tax Free) International Department Store Corporation Limited upon the terms and conditions therein contained; and
- (9) a sale and purchase agreement dated 26th March, 2004 entered into between Orient Prize and Mr. Chan Chung Chiu in respect of the sale and purchase of the entire equity interest in Fine Lord Construction Company Limited upon the terms and conditions therein contained.

**GENERAL**

The English text of this document and the proxy forms for use at the Court Meeting and the EGM shall prevail over their Chinese text in case of inconsistency.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong at Units 1002-05A, 10th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong during normal business hours on any Business Day from the date of this document until the date on which the Scheme becomes effective or lapses:

- (a) the memorandum and articles of association of the Company;
- (b) the Memorandum of Association and the Bye-laws;
- (c) the audited accounts of the Group in respect of each of the fifteen months ended 30th September 2001, the two years ended 30th September, 2003 and the unaudited interim accounts of the Group for the six months ended 31st March, 2004;
- (d) the Companies Act;
- (e) the letter of advice from Conyers Dill & Pearman summarising certain aspects of Bermuda company law;

- (f) the material contracts referred to in this Appendix;
- (g) the letters of consent referred to in this Appendix;
- (h) the Share Option Scheme;
- (i) the Newco Share Option Scheme;
- (j) the letters and valuation certificates relating to the property interests of the Group prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix IV to this document;
- (k) the circular of the Company dated 24th December, 2003; and
- (l) a summary of certain provisions of the Bye-laws and a comparison of such provisions with the existing articles of association of the Company.

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# SCHEME OF ARRANGEMENT

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HCMP 1877/04

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 1877 OF 2004**

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In the Matter  
of  
**MACAU SUCCESS LIMITED**  
澳門實德有限公司  
and  
In the Matter  
of  
the **COMPANIES ORDINANCE**,  
Chapter 32 of the Laws of Hong Kong

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Scheme of Arrangement  
(under Section 166 of the Companies Ordinance,  
Chapter 32 of the Laws of Hong Kong)

between

**MACAU SUCCESS LIMITED**  
澳門實德有限公司  
and  
holders of Scheme Shares  
(as hereinafter defined)

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## PRELIMINARY

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- (A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

“Business Day”	a day (other than a Saturday) on which banks are open for business in Hong Kong
“Company”	Macau Success Limited 澳門實德有限公司, a company incorporated in Hong Kong with limited liability

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## SCHEME OF ARRANGEMENT

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“Court”	the High Court of the Hong Kong Special Administrative Region
“Effective Date”	the date on which this Scheme becomes effective in accordance with Clause 6 of this Scheme
“Existing Newco Shares”	the existing 10,000,000 Newco Shares, all of which have been issued and are nil paid and registered in the name of and beneficially owned by the Company
“holder”	a registered holder and includes a person entitled by transmission to be registered as such and joint holders
“Newco”	Macau Success Limited, a company incorporated in Bermuda with limited liability
“Newco Shares”	the ordinary shares of HK\$0.01 each in the capital of the Newco
“Record Time”	4:00 p.m. Hong Kong time on the Business Day immediately preceding the Effective Date
“Register”	the register of members of the Company in Hong Kong
“Scheme”	this scheme of arrangement in its present form or with or subject to any modification thereof or addition thereto or conditions approved or imposed by the Court
“Scheme Shares”	the 1,587,464,233 Shares in issue together with any further Shares which may be issued at or before the Record Time
“Shares”	the ordinary shares of HK\$0.01 each in the capital of the Company
“HK\$”	Hong Kong dollars



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## SCHEME OF ARRANGEMENT

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- (B) The present authorised capital of the Company is HK\$1,600,000,000 divided into 160,000,000,000 Shares of which 1,587,464,233 Shares have been issued and are fully-paid.
- (C) The Newco was incorporated on 27th May, 2004 as an exempted company under the Companies Act 1981 of Bermuda with an authorised capital of HK\$100,000 comprising the Existing Newco Shares.
- (D) At the date hereof, the Newco does not beneficially own any Shares.
- (E) The primary purpose of this Scheme is that the Company will become a direct wholly-owned subsidiary of the Newco and the holders of Scheme Shares will become shareholders of the Newco.
- (F) The Newco has agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

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# SCHEME OF ARRANGEMENT

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## THE SCHEME

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### PART I

#### SCHEME PARTICULARS

1. On the Effective Date:
  - (a) simultaneous with each other:
    - (i) the entire issued share capital of the Company shall be reduced by cancelling and extinguishing all the Scheme Shares;
    - (ii) the Company shall apply part of the credit arising in its books of account as a result of the reduction of its share capital as aforesaid in paying up in full at par the 10,000,000 new Shares to be allotted and issued simultaneously, credited as fully-paid, to the Newco and transfer the remaining credit to the distributable reserve account of the Company which will be applied in such manner as the directors of the Company consider appropriate;
    - (iii) the authorised share capital of the Company shall be reduced so that the authorised share capital shall comprise HK\$100,000 divided into 10,000,000 Shares held by the Newco solely;
  - (b) the amount standing to the credit of the share premium account of the Company on the Effective Date shall be reduced, cancelled and applied against the accumulated losses of the Company as at the Effective Date and the remaining credit thereof will be transferred to the distributable reserve account of the Company which will be applied in such manner as the directors of the Company consider appropriate; and
  - (c) in consideration for the cancellation of their Scheme Shares, the holders of the Scheme Shares (whose names appear in the Register at the Record Time) shall receive Newco Shares, credited as fully-paid, on the basis of one (1) Newco Share for every one (1) Scheme Share cancelled as aforesaid.

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## SCHEME OF ARRANGEMENT

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### PART II

#### GENERAL APPLICATION

2. The new Newco Shares shall rank *pari passu* in all respects with the Existing Newco Shares, including the right to receive all dividends and distributions which may be declared, made or paid thereafter.
3.
  - (a) Not later than seven (7) Business Days after the Effective Date, the Newco shall send or cause to be sent to the holders of the Newco Shares certificates representing the appropriate number of the Newco Shares, in registered form, to such holders pursuant to Clause 1(b) above.
  - (b) Unless indicated otherwise in writing to the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, all such share certificates shall be sent by prepaid post (or by prepaid air-mail if the holder of the Newco Shares is situated outside Hong Kong) addressed to the holders of the Newco Shares at their respective addresses as appearing in the Register at the Record Time or, in the case of joint holders, at the address appearing in such Register at such time, of that one of the joint holders whose name stands first in such Register in respect of the relevant joint holding or to the other persons entitled thereto.
  - (c) Share certificates shall be delivered at the risk of addressees and none of the Newco, the Company or any persons nominated by them to carry out such delivery shall be responsible for any loss or delay in transmission.
  - (d) On or after the day being six (6) calendar months after the posting of the share certificates pursuant to Clause 3(b) above, the Newco shall have the right to sell those Newco Shares, the certificates of which have been returned, and shall place all monies represented thereby in a deposit account in the Newco's name with a licensed bank in Hong Kong selected by the Newco. The Newco shall hold such monies until the expiration of six (6) years from the Effective Date and shall prior to such date make payments to persons who satisfy the Newco that they are respectively entitled thereto. Any payments made by the Newco hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 1(c) calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest, tax or any withholding tax or any other deduction required by law. The Newco shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled or not so entitled, as the case may be, which determination shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

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## SCHEME OF ARRANGEMENT

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- (e) On the expiration of six (6) years from the Effective Date, the Newco shall be released from any further obligation to make any payments under the Scheme and the Newco shall keep the balance (if any) of the sums then standing to the credit of the deposit account referred to in Clause 3(d) above including accrued interest subject, if applicable, to the deduction of interest, tax or any withholding tax or any other deduction required by law and subject to the deduction of any expenses.
- (f) Clause 3(e) above shall take effect subject to any prohibition or condition imposed by law.
4. Subject to the despatch of the share certificates by the Newco for the appropriate number of new Newco Shares, each instrument of transfer and certificate validly subsisting at the Record Time in respect of a transfer or holding, respectively, of any number of the Shares shall, on the Effective Date, cease to be valid for any purpose as an instrument of transfer or a certificate for the Shares and every holder of such certificates shall be bound on the request of the Newco to deliver up to the Company the certificates for his or her existing shareholdings in the Company. Each valid instrument of transfer for the Shares existing at the Record Time shall, instead, be a valid instrument of transfer in respect of the relevant number of new Newco Shares.
5. All mandates or other instructions to the Company in force at the Record Time relating to the Scheme Shares shall on the Effective Date cease to be valid and effective mandates or instructions.
6. This Scheme shall become effective as soon as an office copy of the order of the Court sanctioning this Scheme under Section 166 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, shall have been delivered to the Registrar of Companies in the Hong Kong Special Administrative Region for registration.
7. Unless this Scheme shall have become effective as aforesaid on or before 31st December, 2004 or such later date, if any, as the Court may allow, this Scheme shall lapse.
8. The Company and the Newco may jointly consent for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Court may see fit to approve or impose.
9. All costs, charges and expenses of and incidental to this Scheme and the costs of carrying the same into effect shall be borne by the Newco.

Dated 27th August, 2004

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## NOTICE OF THE COURT MEETING

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HCMP No. 1877 of 2004

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS**

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**IN THE MATTER OF  
MACAU SUCCESS LIMITED**

澳門實德有限公司

and

**IN THE MATTER OF  
SECTION 166 OF THE COMPANIES ORDINANCE,  
CHAPTER 32 OF THE LAWS OF HONG KONG**

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**NOTICE OF COURT MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an Order dated 24th August, 2004 made in the above matters, the Court has directed a Meeting of the holders of ordinary shares of HK\$0.01 each in the capital of Macau Success Limited 澳門實德有限公司 (the “Company”) to be convened for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and the holders of its ordinary shares of HK\$0.01 each and that such Meeting will be held at Units 1002-05A, 10th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Monday, 27th September, 2004 at 10:00 a.m., at which place and time all the holders of ordinary shares of HK\$0.01 each in the capital of the Company are requested to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 166A of the above-mentioned Ordinance are incorporated in the composite document of which this Notice forms part.

Shareholders may vote in person at the Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A white form of proxy for use at the Meeting is enclosed herewith.

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## NOTICE OF THE COURT MEETING

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It is requested that forms appointing proxies be lodged at the share registrar of the Company, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the Meeting, but if forms are not so lodged, they may be handed to the Chairman of the Meeting at the Meeting.

Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stand first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

By the same Order, the Court has appointed Mr. LEE Siu Cheung or, failing him, Mr. CHAN William to act as Chairman of the Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated the 27th day of August, 2004.

**Iu, Lai & Li, Solicitors**  
20th Floor, Gloucester Tower,  
The Landmark, 11 Pedder Street,  
Central, Hong Kong.  
*Solicitors for the Company*

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## NOTICE OF THE EGM

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### 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 (the “meeting”) of the members of Macau Success Limited (the “Company”) will be held at Units 1002-05A, 10th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Monday, 27th September, 2004 at 10:15 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as special resolutions of the Company:–

#### **SPECIAL RESOLUTIONS**

**“THAT:–**

- (1) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) approving the listing of, and granting permission to deal in, shares of HK\$0.01 each in the issued and proposed issued share capital of the Newco (as defined in the Scheme hereinafter mentioned):–
  - (a) the scheme of arrangement dated 27th August, 2004 (the “Scheme”), in the form of print contained in the circular which has been submitted to this meeting and for the purpose of identification has been signed by the chairman to this meeting, between the Company and the holders of Shares (as defined in the Scheme) as at the Record Time (as defined in the Scheme) (with any modification thereof or addition thereto or subject to any conditions approved or imposed by the Court (as defined in the Scheme)) be and is hereby approved; and
  - (b) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme), simultaneously with each other:
    - (i) the entire issued share capital of HK\$15,874,642.33 of the Company shall be reduced by cancelling and extinguishing all the Scheme Shares;

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## NOTICE OF THE EGM

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- (ii) the Company shall apply part of the credit arising in its books of account as a result of the reduction of its share capital as aforesaid in paying up in full at par the 10,000,000 new Shares to be allotted and issued simultaneously, credited as fully paid, to the Newco and transfer the remaining credit to the distributable reserve account of the Company (the “Distributable Reserve Account”) which will be applied in such manner as the directors of the Company consider appropriate; and
  - (iii) the authorised share capital of the Company shall be reduced so that the authorised share capital shall comprise HK\$100,000 divided into 10,000,000 Shares held by the Newco solely;
- (2) subject to and conditional upon confirmation of the Capital Reduction (as defined below) by the Court pursuant to Section 60 of the Companies Ordinance, the filing with and registration by the Registrar of Companies in Hong Kong of an office copy of the order of the Court and a copy of the minute approved by the Court, both confirming the Capital Reduction pursuant to Section 61 of the Companies Ordinance and the compliance with any conditions as may be imposed by the Court in relation to the Capital Reduction:–
- (A) the amount standing to the credit of the share premium account of the Company on the Effective Date be reduced and cancelled (the “Capital Reduction”) and the directors of the Company be and are hereby authorised to apply such reduced and cancelled amount against the accumulated losses of the Company as at the Effective Date and the remaining credit thereof be transferred to the Distributable Reserve Account which will be applied in such manner as the directors of the Company consider appropriate; and
  - (B) the directors of the Company be and are hereby authorised generally to do all acts and things, and to approve, sign and execute any other documents which they may consider necessary, desirable or expedient to carry into effect or to give effect to the Capital Reduction and the application of any amount in the Distributable Reserve Account; and



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## NOTICE OF THE EGM

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- (3) the share option scheme of the Company adopted on 7th March, 2002 be and is hereby terminated; and

that any one director of the Company be and is hereby authorised to do all such acts and things as he may, in his absolute discretion, deem fit to effect, implement and complete any of the foregoing.”

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

Hong Kong, 27th August, 2004

*Registered Office:*

Units 1002-05A, 10th Floor  
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 than one proxy 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a shareholder 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 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.