IMPORTANT

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

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

CHINA DEVELOPMENT CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability)

PROPOSED SUBSCRIPTION OF NEW SHARES,
PROPOSED PLACING OF NEW SHARES,
APPLICATION FOR THE GRANTING OF
THE WHITEWASH WAIVER
AND
GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Financial adviser to the Subscribers

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

Independent financial adviser to the
Independent Board Committee of
China Development Corporation Limited

ERNST & YOUNG
Ernst & Young Corporate Finance Limited

A letter from the Independent Board Committee of China Development Corporation Limited, containing its advice to the Independent Shareholders is set out on page 25 of this circular. A letter from Ernst & Young Corporate Finance Limited, the independent financial adviser, containing its advice to the Independent Board Committee is set out on pages 26 to 40 of this circular.

A notice convening an extraordinary general meeting of China Development Corporation Limited to be held on Monday, 21st July, 2003 at 3:00 p.m. at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong is set out on pages 112 to 116 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

2nd July, 2003

CONTENTS

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

"Announcement"	the press announcement dated 20th May, 2003 made jointly by the Company and the Subscribers regarding, among others, the Subscription, the Placing and the Whitewash Waiver
"associates"	has the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Capital Reorganisation"	the capital reorganisation of the Company involving share consolidation, capital reduction and an increase in the authorised share capital of the Company which became effective on 2nd June, 2003, details of which were set out in the circular of the Company dated 13th January, 2003
"Company"	China Development Corporation Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
"CSH"	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability, the securities of which are listed on the Stock Exchange, which is independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company, the Subscribers, Young Champion, any of their subsidiaries and any of their respective associates
"Debt"	all indebtedness owing by the Company to CSH up to the date of payment of the Settlement Sum in accordance with the terms of the Deed of Settlement
"Deed of Settlement"	the Deed of Settlement to be entered into by the Company, CSH and Grand Orient for the purpose of discharging and releasing each others from all their respective obligations and liabilities under the Debt and the Loan Agreements upon Subscription Completion
"Directors"	the directors of the Company
"EGM"	an extraordinary general meeting of the Company to be convened to approve, amongst other things, the Subscription Agreement, the Placing Agreement, the Whitewash Waiver and the General Mandates
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any delegate of such Executive Director

"EYCFL"	Ernst & Young Corporate Finance Limited, a deemed licensed corporation under the SFO, which has been appointed by the Company as the independent financial adviser to the Independent Board Committee with respect to the Subscription and the Whitewash Waiver
"Full Ample Indebtedness"	all indebtedness owing by the Company to Full Ample Limited, a company wholly and beneficially owned by Mr. Sonny Yeung Hoi Sing, under the loan agreement dated 28th February, 2003 and as amended by supplemental agreements dated 28th May, 2003 and 16th June, 2003 respectively (as at 31st March, 2003, the Full Ample Indebtedness amounted to HK$25 million)
"General Mandates"	the Issue Mandate and the Repurchase Mandate
"Grand Orient"	Grand Orient Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of CSH, which is independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company, the Subscribers, Young Champion, any of their subsidiaries and any of their respective associates
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Indebtedness"	all and any sums (whether the aggregate principal amount lent by Grand Orient to the Company under the Loan Agreements together with all interest accrued thereon and the Debt) which are payable by the Company to Grand Orient under the Loan Agreements and to CSH in respect of the Debt (as at 31st March, 2003, the Indebtedness amounted to approximately HK$52.4 million)
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Choi Kin Pui, Russelle and Mr. Luk Ka Yee, Patrick, independent non-executive Directors
"Independent Shareholders"	Shareholders other than the Subscribers and their respective associates and the parties acting in concert with them and who are not interested or involved in the Subscription Agreement and the Deed of Settlement
"Issue Mandate"	the mandate proposed to be sought at the EGM to authorise the Directors, conditional upon Subscription Completion and Placing Completion, to allot, issue and deal with the Shares in the manner as set out in ordinary resolutions no. 4 and 6 in the notice of EGM

"Latest Practicable Date"	25th June, 2003, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreements"	the three loan agreements entered into by the Company as borrower and Grand Orient as lender whereby Grand Orient has granted loans to the Company upon the terms and conditions respectively contained in these loan agreements
"Placees"	not less than six investors who are independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company or the Subscribers, Young Champion, any of their subsidiaries and any of their respective associates
"Placing"	the placing of up to a maximum of 298,000,000 new Shares through the Placing Agent pursuant to the Placing Agreement to the Placees on a best-efforts basis
"Placing Agent"	Tai Fook Securities Company Limited, a deemed licensed corporation under the SFO
"Placing Agreement"	the conditional placing agreement dated 20th May, 2003 and as amended by a supplemental agreement dated 10th June, 2003 (which amended the long-stop date of the Placing Agreement from 15th July, 2003 to 15th August, 2003) entered into between the Company and the Placing Agent in relation to the Placing on a best-efforts basis subject to the terms and conditions contained therein
"Placing Completion"	completion of the Placing pursuant to the Placing Agreement
"Placing Shares"	a maximum number of 298,000,000 new Shares to be issued by the Company to the Placees pursuant to the Placing Agreement upon Placing Completion
"Previous Share(s)"	ordinary share(s) of HK$0.40 each in the share capital of the Company before the Capital Reorganisation becoming effective
"Repurchase Mandate"	the mandate proposed to be sought at the EGM to grant the Directors authority, conditional upon Subscription Completion and Placing Completion, to repurchase the Shares in the manner as set out in ordinary resolution no. 5 in the notice of EGM

"Settlement Sum"	a sum of HK$20 million payable by the Company to CSH and/or Grand Orient or as it/they may direct in full and final settlement of the Indebtedness
"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$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective
"Shareholder(s)"	the holder(s) of the Previous Share(s) or the Share(s), as the case may be
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscribers"	Silver Rich Macau Development Limited, Spring Wise Investments Ltd. and Leader Assets Ltd., each of which is a company incorporated in the British Virgin Islands with limited liability
"Subscription"	the subscription of the Subscription Shares by the Subscribers upon and subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 20th May, 2003 and as amended by a supplemental agreement dated 10th June, 2003 (which amended the long-stop date of the Subscription Agreement from 15th July, 2003 to 15th August, 2003) entered into between the Company and the Subscribers in relation to the Subscription
"Subscription Completion"	completion of the Subscription pursuant to the Subscription Agreement
"Subscription Shares"	an aggregate of 1,043,200,000 new Shares to be issued by the Company to the Subscribers pursuant to the Subscription Agreement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Whitewash Waiver"	a waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of the Subscribers to make an unconditional mandatory cash offer under Rule 26 of the Takeovers Code for all the issued Shares not already owned or agreed to be acquired by the Subscribers and parties acting in concert with them
"Young Champion"	Young Champion Securities Limited, a licensed corporation under the SFC and a participant of the Stock Exchange
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"%"	per cent.

CHINA DEVELOPMENT CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability)

Executive Directors:
Mr. Kwok Ka Lap, Alva
Mr. Lam Siu Sek
Mr. Ng Wai Ming

Non-executive Director:
Mr. Lien Kait Long

Independent non-executive Directors:
Mr. Choi Kin Pui, Russelle
Mr. Luk Ka Yee, Patrick

Registered Office:
8th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

2nd July, 2003

To the Shareholders

Dear Sir or Madam,

**PROPOSED SUBSCRIPTION OF NEW SHARES,
PROPOSED PLACING OF NEW SHARES,
APPLICATION FOR THE GRANTING OF
THE WHITEWASH WAIVER
AND
GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

INTRODUCTION

On 20th May, 2003, the Board announced that the Company entered into:

(i) the conditional Subscription Agreement with the Subscribers in relation to the subscription of 1,043,200,000 new Shares at a subscription price of HK$0.0671 per Share, equivalent to a total consideration of approximately HK$70 million; and

(ii) the conditional Placing Agreement with the Placing Agent in relation to the proposed placing of up to a maximum of 298,000,000 new Shares, on a best-efforts basis, at a placing price of HK$0.0671 per Share to not less than six independent investors, equivalent to a total consideration of approximately HK$20 million.

The Subscription Shares represent approximately 7 times of the existing entire issued share capital of the Company and approximately 70.0% of the entire issued share capital of the Company as enlarged by the Subscription Shares and the Placing Shares (on the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement). On the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement, the Placing Shares represent approximately 2 times of the existing entire issued share capital of the Company and approximately 20.0% of the entire issued share capital of the Company as enlarged by the Subscription Shares and the Placing Shares.

Pursuant to Rule 26 of the Takeovers Code, upon Subscription Completion, the Subscribers and parties acting in concert with them (if any) will be obliged to make an unconditional mandatory cash offer for all the issued Shares not already owned or agreed to be acquired by the Subscribers or parties acting in concert with them (if any). An application has been made by the Subscribers to the Executive for the Whitewash Waiver. The Executive has indicated his agreement to grant the Whitewash Waiver, subject to the approval of the Independent Shareholders by way of poll at the EGM.

Ordinary resolutions will also be proposed that, conditional upon Subscription Completion and Placing Completion, the Directors be granted the General Mandates.

The purpose of this circular is: (i) to give you further information of the Subscription Agreement, the Placing Agreement, the Whitewash Waiver and the General Mandates; (ii) to set out the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver; (iii) to set out the advice of EYCFL to the Independent Board Committee in relation to the Subscription and the Whitewash Waiver; and (iv) to give you a notice of the EGM at which ordinary resolutions will be proposed to consider and, if thought fit, to approve, among other matters, the Subscription, the Placing, the Whitewash Waiver and the General Mandates.

THE SUBSCRIPTION AGREEMENT

Parties

(i) the Company; and

(ii) the Subscribers, namely Silver Rich Macau Development Limited, Spring Wise Investments Ltd. and Leader Assets Ltd., each of which is a company incorporated in the British Virgin Islands with limited liability.

Each of the Subscribers is independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company, CSH, Grand Orient, any of their subsidiaries and any of their respective associates. As at the Latest Practicable Date, the Subscribers and parties acting in concert with them do not hold any Shares.

Silver Rich Macau Development Limited is wholly-owned by a discretionary trust, the beneficiaries of which are family members of Mr. Sonny Yeung Hoi Sing. Full Ample Limited, a company wholly and beneficially owned by Mr. Sonny Yeung Hoi Sing, has provided the Full Ample Indebtedness of HK$25 million to the Group.

The Subscription Shares

Pursuant to the Subscription Agreement, Silver Rich Macau Development Limited, Spring Wise Investments Ltd. and Leader Assets Ltd. conditionally agreed to subscribe for 678,080,000, 290,606,000 and 74,514,000 new Shares respectively, equivalent to an aggregate of 1,043,200,000 new Shares which represent approximately 7 times of the existing entire issued share capital of the Company and approximately 70.0% of the entire issued share capital of the Company as enlarged by the Subscription Shares and the Placing Shares (on the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement).

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects with the Shares in issue or to be issued on or prior to the date of Subscription Completion. In addition, the Subscription Shares will not be subject to any lock-up or restriction on disposal requirements.

Conditions of the Subscription Agreement

Subscription Completion is conditional upon the following conditions having been fulfilled (or waived by the parties to the Subscription Agreement as provided below):

(a) the passing by the Shareholders (excluding such person(s), if any, who are required to abstain by law or by the Listing Rules or the Takeovers Code) of resolutions in the EGM approving:–

(i) (if necessary) the increase in the authorised share capital of the Company to such amount as shall allow the Company to allot and issue the Subscription Shares and the Placing Shares upon completion of the Subscription Agreement and the Placing Agreement;

(ii) the Subscription Agreement and the transactions contemplated thereunder in accordance with the terms of the Subscription Agreement and the requirements of the Listing Rules and the Takeovers Code; and

(iii) the grant of a waiver in respect of the obligation of the Subscribers and the parties acting in concert with them (if any) to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired by the Subscribers or any parties acting in concert with them (if any) as a result of the issue of the Subscription Shares in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code;

(b) the Capital Reorganisation becoming effective and the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares (excluding the Subscription Shares and the Placing Shares) upon the Capital Reorganisation becoming effective;

(c) the Listing Committee of the Stock Exchange agreeing to grant (subject to allotment) the listing of, and permission to deal in, the Subscription Shares (and such permission and listing not subsequently being revoked prior to the delivery of definitive Share certificate(s) representing the Subscription Shares);

(d) the Executive granting to the Subscribers and parties acting in concert with them (if any) a waiver of the obligation to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired by the Subscribers or any parties acting in concert with them (if any) as a result of the issue of the Subscription Shares;

(e) the Shares remaining listed and traded on the Stock Exchange at all times prior to and on the date of Subscription Completion, save for any suspension not exceeding 10 consecutive trading days (as defined in the Listing Rules) (or such longer period as the Subscribers may reasonably accept in writing) or any temporary suspension in connection with the clearance by the Stock Exchange and the SFC of the Announcement or any other announcement relating to, among others, the transactions contemplated under the Subscription Agreement and/or the Capital Reorganisation;

(f) no indication being received on or before the date of Subscription Completion from the Stock Exchange or the SFC to the effect that the listing of the Shares may be withdrawn or objected to (or conditions which may be attached thereto) as a result of Subscription Completion or in connection with the terms of the Subscription Agreement; and

(g) the Subscribers notifying the Company or the Company's solicitors in writing that they are reasonably satisfied with the due diligence review as specified in the Subscription Agreement.

Pursuant to the Subscription Agreement, the Subscribers may, at their absolute discretion, waive all or any of the above conditions, other than those set out in the above conditions (a)(i), (a)(ii), (b), (c), (e) and (f), at any time by notice in writing to the Company provided that the above conditions (a)(iii) and (d) may only be waived by the Subscribers upon production of sufficient proof to the satisfaction of the SFC that the Subscribers have the financial capability to make the mandatory general offer for the Shares not already owned or agreed to be acquired by the Subscribers or any parties acting in concert with them (if any) as a result of Subscription Completion in accordance with the provisions of the Takeovers Code. In addition, the Subscribers have undertaken to Tai Fook Capital Limited not to waive the above conditions (a)(iii) and (d) unless Tai Fook Capital Limited is satisfied that the Subscribers have the sufficient financial capability to make the aforesaid mandatory general offer. The Capital Reorganisation was completed and became effective on 2nd June, 2003.

The Subscribers have confirmed that they have no intention to waive the above conditions (a)(iii) and (d) set out above. In the event that all the above conditions are not fulfilled or waived (as the case may be) by 5:00 p.m. (Hong Kong time) on 15th August, 2003 *(Note)* (or such other date as may be agreed by the parties to the Subscription Agreement), any of the Company or the Subscribers may by notice to the other elect to immediately terminate and rescind the Subscription Agreement.

As at the Latest Practicable Date, save for the fact that the Capital Reorganisation has became effective, all other conditions as set out above have not been fulfilled or waived.

Note: The long-stop date of the Subscription Agreement was originally 15th July, 2003 which has been subsequently extended to 15th August, 2003 pursuant to a supplemental agreement dated 10th June, 2003.

Completion

Subscription Completion shall take place on the third business day after fulfillment or waiver of the last condition of the Subscription Agreement or such other date as the parties to the Subscription Agreement may agree in writing on which Subscription Completion shall take place.

Pursuant to the Subscription Agreement, upon the Subscription Completion, the Company shall (i) repay the Full Ample Indebtedness of HK$25 million and certain other outstanding indebtedness due and owing by the Company up to 31st March, 2003 of approximately HK$2.6 million (the "Other Indebtedness"); and (ii) execute the Deed of Settlement with CSH and Grand Orient, the form of which is contained in the Subscription Agreement. On the basis that the Company will be able to satisfy its liabilities upon completion of the Deed of Settlement and Subscription Completion, the Directors are of the view that the Company will be solvent as at the date of Subscription Completion. Based on the above, the Directors consider that it is not necessary for the Company to obtain consents from other creditors of the Company to settle the Full Ample Indebtedness and the Other Indebtedness and the entering into of the Deed of Settlement.

Pursuant to the Deed of Settlement, subject to the payment of the Settlement Sum in the amount of HK$20 million by the Company to CSH and/or Grand Orient or as it/they may direct, each of the Company, CSH and Grand Orient will irrevocably and unconditionally (a) waive, release and discharge each other in their entirety from (i) all their respective obligations and liabilities under the Debt and the Loan Agreements; and (ii) any past or existing claims which may have against each others in connection with the Debt and the Loan Agreements; (b) undertake not to make any further claim against each others in connection with the Debt and the Loan Agreements; and (c) confirm that after payment of the Settlement Sum, none of the parties shall have any obligation or liability to the others in respect of the Debt and under the Loan Agreements.

The Debt represents miscellaneous non-trade payables due from the Company to CSH which amounted to approximately HK$0.1 million as at 31st March, 2003. The loans under the Loan Agreements were entered into by the Company and Grand Orient on (i) 5th December, 2000 and as supplemented by two supplemental agreements dated 12th June, 2001 and 12th December, 2001 respectively and a supplemental deed dated 16th October, 2002; (ii) 13th June, 2001 and as supplemented by a supplemental agreement dated 12th December, 2001 and a supplemental deed dated 16th October, 2002; and (iii) 3rd September, 2001 and as supplemented by a supplemental agreement dated 3rd December, 2001 and a supplemental deed dated 16th October, 2002, respectively. Such loans are unsecured and payable on 15th April, 2004 and bear interests ranging from prime rate plus 1% to 2% per annum which are payable on 15th April, 2004. As at 31st March, 2003, the total principal and interest outstanding in respect of the loans under the Loan Agreements amounted to approximately HK$52.3 million.

The Deed of Settlement shall be subject to, conditional and become effective upon payment by the Company to CSH and/or Grand Orient or as it/they may direct the Settlement Sum on or before 15th August, 2003 (or such other date as the parties to the Deed of Settlement may agree in writing) and not otherwise. In the event that payment of the Settlement Sum is not paid to CSH and/or Grand Orient or as it/they may direct on or before 15th August, 2003 (or such other date as the parties to the Deed of Settlement may agree in writing), the Deed of Settlement shall become null, void and of no further force and effect and the parties to the Deed of Settlement shall be in the same position as regards the Loan Agreements and the Debt as if the Deed of Settlement had never been entered into.

The Subscribers and the Company agreed that the Indebtedness and the Full Ample Indebtedness shall be settled upon Subscription Completion after taking into account the fact that, among others, (i) the settlement of the Indebtedness according to the Deed of Settlement will result in an estimated gain of approximately HK$32.4 million as the Group is only required to pay the Settlement Sum of HK$20 million to settle the Indebtedness amounting to approximately HK$52.4 million as at 31st March, 2003; and (ii) there was an imminent need to settle the Full Ample Indebtedness as the Full Ample Indebtedness originally became due on 28th May, 2003 (which was subsequently extended to 15th July, 2003 by a supplemental agreement dated 28th May, 2003 and to 15th August, 2003 by another supplemental agreement dated 16th June, 2003).

In addition, the Subscribers and the Company agreed that the Other Indebtedness shall be settled upon Subscription Completion given the fact that, among others, (i) there was an imminent need to settle the Other Indebtedness as it has been overdue for some time; and (ii) the aggregate balance of the Other Indebtedness amounted only to approximately HK$2.6 million such that the Group has adequate financial resources to settle it. The Other Indebtedness mainly related to payments of financial advisory fees, legal fees and consultancy fees. Other than Tai Fook Capital Limited which is the financial adviser to the Subscribers and Iu, Lai & Li which is the legal adviser to the Subscribers, all creditors of the Other Indebtedness are not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company or the Subscribers, Young Champion, any of their subsidiaries and any of their respective associates.

The information that the Full Ample Indebtedness and the Other Indebtedness shall be settled upon Subscription Completion (the “Settlement”), which forms part of the Subscription Agreement, had not been mentioned in the Announcement after taking into account, among others, the following factors:

(i) the obligations of the Group to repay the Full Ample Indebtedness and the Other Indebtedness have already existed before the entering into of the Subscription Agreement and such obligations remain unchanged as a result of the entering into of the Subscription Agreement;

(ii) prior to the entering into of the Subscription Agreement by the Company and the Subscribers on 20th May, 2003, the Directors noted that there was an imminent need to settle the Full Ample Indebtedness and the Other Indebtedness given the fact that (a) the Full Ample Indebtedness originally became due on 28th May, 2003 (which was extended to 15th July, 2003 by a supplemental agreement dated 28th May, 2003 and to 15th August, 2003 by another supplemental agreement dated 16th June, 2003); and (b) the Other Indebtedness had been overdue for some time. As such, before the entering into of the Subscription Agreement, the Directors considered that the Group should settle the Full Ample Indebtedness and the Other Indebtedness as soon as possible. Given the fact that (a) the short-term nature and the beneficial owner of the Full Ample Indebtedness had been disclosed in the Announcement; and (b) no favourable conditions or extra benefits would be conferred to the Subscribers or any Shareholders as a result of the inclusion of the Settlement in the Subscription Agreement, the details of the Settlement was not mentioned in the Announcement; and

(iii) the Company has not entered into any other agreements with Full Ample Limited and the creditors of the Other Indebtedness and the settlement of the Full Ample Indebtedness and the Other Indebtedness will not result in any similar financial impact on the Group as the settlement of the Indebtedness which will result in an estimated unaudited gain of approximately HK$32.4 million.

THE PLACING AGREEMENT

Parties

(i) the Company; and

(ii) Tai Fook Securities Company Limited, the Placing Agent.

Tai Fook Securities Company Limited is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

Placees

There will be not less than six placees who will be individual, corporate and/or institutional investors who are independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company or the Subscribers, Young Champion, any of their subsidiaries and any of their respective associates.

The Placing Shares

Pursuant to the Placing Agreement, the Placing Agent agreed to place, on a best-efforts basis, up to a maximum of 298,000,000 new Shares, representing approximately 2 times of the existing entire issued share capital of the Company and approximately 20.0% of the entire issued share capital of the Company as enlarged by the Subscription Shares and the Placing Shares.

The Placing Shares, when issued and fully paid, will rank pari passu in all respects with the Shares in issue or to be issued on or prior to the date of Placing Completion. In addition, the Placing Shares will not be subject to any lock-up or restriction on disposal requirements.

Conditions of the Placing Agreement

Placing Completion is conditional upon the following conditions having been fulfilled:

(a) the passing by the Shareholders (excluding such person(s), if any, who are required to abstain by law or by the Listing Rules) of resolutions in the EGM approving the Placing Agreement and the transactions contemplated thereunder in accordance with the terms of the Placing Agreement and the requirements of the Listing Rules;

(b) the Subscription Agreement becoming unconditional in all respects in accordance with its terms; and

(c) the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Placing Shares.

If the conditions precedent are not fulfilled by 15th August, 2003 *(Note)* (or such other date as may be agreed by the parties to the Placing Agreement), all rights, obligations and liabilities of the parties under the Placing Agreement in relation to the Placing shall cease and terminate and none of the parties shall have any claim against any other in respect of the Placing save for any antecedent breaches of the Placing Agreement.

Completion

Placing Completion shall take place on the third business day after the date upon which all the conditions of the Placing Agreement shall have been satisfied or such other time and/or date as the Company and the Placing Agent may agree in writing.

SUBSCRIPTION PRICE AND PLACING PRICE

Pursuant to the Subscription Agreement and the Placing Agreement, each of the subscription price per Subscription Share and the placing price per Placing Share is HK$0.0671, which represents:

- a discount of approximately 39.0% to the theoretical closing price of HK$0.1100 per Share assuming the Capital Reorganisation has been completed on 2nd May, 2003, which is calculated based on 10 times of the closing price as quoted on the Stock Exchange on 2nd May, 2003, being the last trading day prior to suspension of trading in the Previous Shares on the Stock Exchange pending the issue of the Announcement;

- a discount of approximately 43.1% to the theoretical average closing price of HK$0.1180 per Share assuming the Capital Reorganisation has been completed before the last 10 consecutive trading days up to and including 2nd May, 2003, which is calculated based on 10 times of the closing prices as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 2nd May, 2003;

- a discount of approximately 42.0% to the theoretical average closing price of HK$0.1157 per Share assuming the Capital Reorganisation has been completed before the last 30 consecutive trading days up to and including 2nd May, 2003, which is calculated based on 10 times of the closing prices as quoted on the Stock Exchange over the last 30 consecutive trading days up to and including 2nd May, 2003;

- a discount of approximately 41.7% to the closing price of HK$0.115 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- a discount of approximately 44.1% to the average closing price of HK$0.120 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including the Latest Practicable Date; and

- a discount of approximately 51.4% to the average closing price of HK$0.138 per Share as quoted on the Stock Exchange over the last 30 consecutive trading days up to and including the Latest Practicable Date.

Note: The long-stop date of the Placing Agreement was originally 15th July, 2003 which has been subsequently extended to 15th August, 2003 pursuant to a supplemental agreement dated 10th June, 2003.

The Directors consider that each of the subscription price per Subscription Share and the placing price per Placing Share of HK$0.0671 per Share is fair and reasonable after taking into account the fact that (i) the Group has recorded losses for the fifteen months ended 30th September, 2001, the year ended 30th September, 2002 and the six months ended 31st March, 2003; (ii) the Group had consolidated net liabilities of approximately HK$95.2 million and HK$96.6 million as at 30th September, 2002 and 31st March, 2003 respectively; and (iii) the thin trading volume of the Previous Shares (the average trading volume of the Previous Shares during the year ended 2nd May, 2003 (being the last trading day prior to suspension of trading in the Previous Shares on the Stock Exchange pending the issue of the Announcement) amounted to approximately 795,000 Previous Shares per trading day, representing approximately 0.06% of the total number of issued Previous Shares).

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company immediately after Subscription Completion and Placing Completion:

Name	Shareholding as at the Latest Practicable Date		Shareholding immediately after Subscription Completion but before Placing Completion		Shareholding immediately after Subscription Completion and Placing Completion	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Cyber Best Trading Limited *(Note 1)*	45,187,069	30.3	45,187,069	3.8	45,187,069	3.0
The Subscribers						
– Silver Rich Macau Development Limited	–	–	678,080,000	56.9	678,080,000	45.5
– Spring Wise Investments Ltd.	–	–	290,606,000	24.4	290,606,000	19.5
– Leader Assets Ltd.	–	–	74,514,000	6.2	74,514,000	5.0
Sub-total	–	–	1,043,200,000	87.5	1,043,200,000	70.0
Placees *(Note 2)*	–	–	–	–	298,000,000	20.0
Other public	103,877,164	69.7	103,877,164	8.7	103,877,164	7.0
Total	149,064,233	100.0	1,192,264,233	100.0	1,490,264,233	100.0

Notes:

1. The entire issued share capital of Cyber Best Trading Limited is beneficially and wholly owned by Mr. Lin Che Chu.

2. It is intended that the Placing will be undertaken such that all Placees will be regarded as the public (as defined under the Listing Rules) upon Subscription Completion and Placing Completion.

TAKEOVERS CODE IMPLICATIONS FOR THE SUBSCRIBERS

As at the Latest Practicable Date, none of the Subscribers and parties acting in concert with them hold any of the Shares save for the entering into of the Subscription Agreement. Immediately after Subscription Completion but before Placing Completion, the Subscribers and parties acting in concert with them will be interested in 1,043,200,000 Shares, representing approximately 87.5% of the entire issued share capital of the Company as enlarged by the Subscription Shares. Accordingly, unless the Whitewash Waiver is granted, the Subscribers and parties acting in concert with them (if any) would be obliged, upon Subscription Completion, to make an unconditional mandatory cash offer to acquire all the Shares, other than those already owned or agreed to be acquired by the Subscribers or parties acting in concert with them (if any) under Rule 26 of the Takeovers Code. An application has been made by the Subscribers to the Executive for granting of the Whitewash Waiver. The Executive has indicated his agreement to grant the Whitewash Waiver, subject to the approval of the Independent Shareholders by way of poll at the EGM.

The Whitewash Waiver would be subject to approval of the Independent Shareholders at the EGM by way of poll. The Subscribers and parties acting in concert with them have confirmed that they have not acquired any issued share capital in the Company in the six-month period prior to the date of the Announcement and up to the Latest Practicable Date. The Subscribers have also undertaken that none of them nor any parties acting in concert with them will acquire or dispose of any Shares during the period commencing from the Latest Practicable Date up to and including the date of the EGM.

As the Subscribers will be interested in more than 50% of the entire issued share capital of the Company after Subscription Completion and Placing Completion, the Subscribers may further acquire the Shares without incurring any obligation to make a general offer to acquire all the Shares (other than those already owned or to be acquired by the Subscribers or parties acting in concert with them) under Rule 26 of the Takeovers Code.

MAINTAINING THE LISTING STATUS OF THE COMPANY

It is the intention of the Subscribers to maintain the listing of the Shares on the Stock Exchange after the Subscription Completion. Accordingly, the Subscribers have jointly and severally undertaken to the Stock Exchange to take necessary steps to ensure that the public float of the Shares will not be less than 25% immediately after Subscription Completion and Placing Completion. Further announcement will be made, if required, in relation to any action taken in respect of the public float of the Shares to ensure compliance with the Listing Rules.

The Stock Exchange has stated that it will closely monitor trading in the Shares if less than 25% of the Shares are held by the public. If the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares. In addition, the Stock Exchange has stated that it will suspend trading in the Shares if less than 10% of the Shares are held by the public.

If the Company remains as a listed company, any future acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

INFORMATION ON THE GROUP

The principal activities of the Group are construction and civil engineering business and operation of a department store in Hong Kong. The following table sets out a summary of the consolidated results of the Group for the fifteen months ended 30th September, 2001, the year ended 30th September, 2002 and the six months ended 31st March, 2003:

	For the six months ended 31st March, 2003 (unaudited)	**For the year ended 30th September, 2002 (audited)**	**For the fifteen months ended 30th September, 2001 (audited)**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	50,550	302,263	441,827
Loss before taxation	(1,351)	(115,715)	(326,004)
Net loss	(1,400)	(115,407)	(329,251)

As at 30th September, 2001, the Group had an audited consolidated net asset value of approximately HK$44 million. As at 30th September, 2002, the Group had an audited consolidated net liabilities of approximately HK$95.2 million. As at 31st March, 2003, the Group had an unaudited consolidated net liabilities of approximately HK$96.6 million.

Notwithstanding the resignation of Mr. Cheung Yu Shum, Jenkin as chairman and an executive director of the Company on 25th April, 2003, the Group will continue its existing businesses of construction, civil engineering and retail trading in Hong Kong. Mr. Cheung Yu Shum, Jenkin was previously responsible for the strategic planning and corporate development of the Company prior to his resignation. Subsequent to his resignation, his function has been undertaken by Mr. Kwok Ka Lap, Alva, an executive Director appointed by the Company on 4th April, 2003. Mr. Kwok, aged 54, was a marketing manager in an international company engaged in the design of business administration system for more than 7 years and has over 20 years of experience in insurance and investment business principally in senior managerial position. Mr. Kwok Ka Lap, Alva is currently an independent non-executive director of two companies listed on the Stock Exchange, namely Cheung Tai Hong Holdings Limited and Ananda Wing On Travel (Holdings) Limited.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND THE PLACING

Owing to the sustained economy recession and the sluggish property market in Hong Kong, the operating environment in construction and engineering business remains difficult. Intense competitions also exerted downward pressure on the tender prices. As such, the Directors expect that the performance of the construction and engineering business in Hong Kong is still under pressure. As to the retail business, the Hong Kong economy has not shown significant sign of recovery and the tourism industry still remains depressed in general.

For the year ended 30th September, 2002 and the 15 months ended 30th September, 2001, the Group recorded net loss of approximately HK$115 million and approximately HK$329 million respectively. As at 30th September, 2002, the Group was in an audited net deficits position of approximately HK$95.2 million. As such, as stated in the audited financial statements of the Company for the year ended 30th September, 2002, the ability of the Group to continue as a going concern will depend upon future funding being available.

According to the circular of the Company dated 13th January, 2003, the Company did not have any plans to conduct any capital raising. However, in view of the unfavourable operating environment of the Group and the fact that the ability of the Group to continue as a going concern will depend upon future funding being available, the Company commenced negotiation with the Subscribers and the Placing Agent in relation to the Subscription and the Placing subsequent to the issue of the aforesaid circular. The Directors and the Subscribers consider that the entering into of the Subscription Agreement and the Placing Agreement provide an opportunity for the Group to strengthen its financial position and provide necessary working capital for its ongoing operations. In particular, the Subscription and the Placing will provide new source of funding to the Group (i) for the payment of the Settlement Sum which is beneficial to the Group given the fact that the Group is only required to pay the Settlement Sum of HK$20 million to settle the Indebtedness which amounted to approximately HK$52.4 million as at 31st March, 2003 and an unaudited gain of approximately HK$32.4 million (based on the Indebtedness of approximately HK$52.4 million as at 31st March, 2003) shall be recognised in the profit and loss account of the Group for the year ending 30th September, 2003; (ii) for the settlement of the Full Ample Indebtedness; (iii) for meeting the financial needs of the operations and development of the existing business of the Group; and (iv) for investing in new business with good potential in order to diversify the Group's business and bring in new source of income which is in line with the Group's mission of enhancing the value of its investments and seeking opportunities for its synergistic growth. Upon Subscription Completion, the Directors consider that the Group will be able to continue as a going concern.

On the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement, the estimated net proceeds from the Subscription and the Placing will amount to approximately HK$89 million. The Directors intend to apply such net proceeds as to approximately HK$20 million to pay the Settlement Sum, as to HK$25 million to settle the Full Ample Indebtedness and as to approximately HK$44 million as general working capital for meeting the financial needs of the operations of the existing business of the Group and, when opportunities arise, for investing in new business with good potential which may or may not be in line with the existing principal activities of the Group. As at the Latest Practicable Date, the Directors and the Subscribers have not identified any investment opportunities.

As at 31st March, 2003, the Group had unaudited total liabilities of approximately HK$125.4 million. On this basis, the Group would have unaudited total liabilities of approximately HK$45.4 million following completion of the Deed of Settlement and the settlement of the Full Ample Indebtedness of HK$25.0 million and the Other Indebtedness of approximately HK$2.6 million, of which approximately HK$12.1 million are long-term liabilities and HK$33.3 million are short-term liabilities. On the assumption that all of the 298,000,000 new Shares are placed pursuant to the Placing Agreement, the estimated net proceeds from the Subscription and the Placing will amount to approximately HK$89 million, of which approximately HK$20 million will be applied to pay the Settlement Sum, HK$25 million will be applied to settle the Full Ample Indebtedness and approximately HK$44 million will be applied as general working capital of the Group. After taking into account the existing financial resources available to the Group, including cash and bank balances (approximately HK$3.6 million as at 31st March, 2003 (unaudited)) and other current assets (approximately HK$14.5 million as at 31st March, 2003 (unaudited)) of the Group, and the aforesaid net proceeds from the Subscription and the Placing, the Directors and the Subscribers consider that the Group would have sufficient funding to repay the aforesaid liabilities when they fall due following completion of the Deed of Settlement, Subscription Completion and Placing Completion.

INFORMATION ON AND INTENTION OF THE SUBSCRIBERS

Each of the Subscribers is a limited company incorporated in the British Virgin Islands. Since their respective incorporation, none of the Subscribers have conducted any business apart from the entering into of the Subscription Agreement. Further information on the Subscribers and their intention is set out in the "Letter from the Subscribers" contained on pages 20 to 24 of this circular.

APPLICATION FOR LISTING

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Placing Shares to be issued under the Subscription Agreement and the Placing Agreement.

THE REPURCHASE MANDATE

At the EGM, an ordinary resolution will be proposed to the Shareholders to grant to the Directors authority, conditional upon Subscription Completion and Placing Completion, to repurchase, as for the fully paid Shares, of up to 10% of the issued share capital of the Company in issue immediately following Subscription Completion and Placing Completion.

The Repurchase Mandate will, if granted, remain in effect until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by the law or by the articles of association of the Company; and (iii) its revocation or variation by an ordinary resolution of the Shareholders in general meeting.

An explanatory statement in relation to the Repurchase Mandate as required by the relevant provisions of the Listing Rules is set out in the Appendix III to this circular.

THE ISSUE MANDATE

At the EGM, an ordinary resolution will be proposed to the Shareholders that the Directors be given, conditional upon Subscription Completion and Placing Completion, a general mandate to allot, issue and deal with the Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company in issue immediately following Subscription Completion and Placing Completion in order to increase the flexibility for raising capital to facilitate expansion plan of the Company as the Directors consider appropriate.

The Issue Mandate will, if granted, remain effective until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by the law or by the articles of association of the Company; and (iii) its revocation or variation by an ordinary resolution of the Shareholders in general meeting.

In addition, if the Repurchase Mandate is granted, an ordinary resolution will be proposed to the Shareholders at the EGM providing that any Shares repurchased under the Repurchase Mandate will be added to the total number of the Shares which may be allotted and issued under the Issue Mandate.

THE EGM

Set out on pages 112 to 116 of this circular is a notice convening the EGM to be held on Monday, 21st July, 2003 at 3:00 p.m. at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at which ordinary resolutions will be proposed to consider and, if thought fit, to approve:

(1) the terms and conditions of the Subscription Agreement, the issue of the Subscription Shares and all other transactions contemplated under the Subscription Agreement by the Independent Shareholders;

(2) the terms and conditions of the Placing Agreement, the issue of the Placing Shares and all other transactions contemplated under the Placing Agreement by the Shareholders;

(3) the Whitewash Waiver by the Independent Shareholders by way of poll; and

(4) the Issue Mandate and the Repurchase Mandate by the Shareholders.

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

RECOMMENDATIONS

EYCFL has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee regarding the Subscription and the Whitewash Waiver.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. As (i) Mr. Lam Siu Sek and Mr. Ng Wai Ming, executive Directors, are salaried employees of the Group; (ii) Mr. Kwok Ka Lap, Alva, an executive Director, has involved in the negotiation of the Subscription; and (iii) as at the Latest Practicable Date, Mr. Lien Kait Long, a non-executive Director, (a) held certain shares of CSH, which is a party to the Deed of Settlement, and certain warrants of CSH which refer rights to Mr. Lien Kait Long to subscribe for certain shares of CSH; and (b) a director of certain subsidiaries of CSH, each of Mr Lam Siu Sek, Mr Ng Wai Ming, Mr Kwok Ka Lap, Alva and Mr. Lien Kait Long is not regarded as independent for the purposes of advising the Independent Shareholders in respect of the Subscription and the Whitewash Waiver. Accordingly, Mr. Choi Kin Pui, Russelle and Mr. Luk Ka Yee, Patrick, independent non-executive Directors, have been invited to form the Independent Board Committee.

The Independent Board Committee, having taken into account the advice of EYCFL, considers that the terms of the Subscription Agreement are fair and reasonable and that the Subscription and the granting of the Whitewash Waiver are in the interests of the Group and the Independent Shareholders as a whole. The Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the Subscription and the Whitewash Waiver.

FURTHER INFORMATION

Your attention is drawn to the letter from the Subscribers set out on pages 20 to 24 of this circular, the letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver set out on page 25 of this circular, the letter of advice from EYCFL to the Independent Board Committee in relation to the Subscription and the Whitewash Waiver set out on pages 26 to 40 of this circular and additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
China Development Corporation Limited
Kwok Ka Lap, Alva
Executive Director

SILVER RICH MACAU DEVELOPMENT LIMITED
(Incorporated in the British Virgin Islands with limited liability)

SPRING WISE INVESTMENTS LTD.
(Incorporated in the British Virgin Islands with limited liability)

LEADER ASSETS LTD.
(Incorporated in the British Virgin Islands with limited liability)

Directors of Silver Rich Macau Development Limited:
Mr. Sonny Yeung Hoi Sing
Mr. Alfred Yeung Onshing
Mr. Bosco Tso Hon Sai

Sole director of Spring Wise Investments Ltd.:
Ontime Group Ltd. *(corporate director)*

Sole director of Leader Assets Ltd.:
Mr. Lam Shu Chung

Registered office of Silver Rich Macau Development Limited, Spring Wise Investments Ltd. and Leader Assets Ltd.:
P. O. Box 957
Offshore Incorporations Centre
Road Town
Tortola
British Virgin Islands

2nd July, 2003

To the Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES IN CHINA DEVELOPMENT CORPORATION LIMITED AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

INTRODUCTION

As stated in the Announcement, the Subscribers entered into the Subscription Agreement with the Company on 20th May, 2003. Details of the Subscription Agreement are given in the letter from the Board contained in the circular of the Company to its Shareholders dated 2nd July, 2003 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Pursuant to the Subscription Agreement, Silver Rich Macau Development Limited, Spring Wise Investments Ltd. and Leader Assets Ltd. conditionally agreed to subscribe for 678,080,000, 290,606,000 and 74,514,000 new Shares respectively, equivalent to an aggregate of 1,043,200,000 new Shares which represent approximately 7 times of the existing entire issued share capital of the Company and approximately 70.0% of the entire issued share capital of the Company as enlarged by the Subscription Shares and the Placing Shares (on the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement).

The subscription price per Subscription Share of HK$0.0671 per Share was arrived at after arm's length negotiations between the Company and the Subscribers and is considered by the Subscribers to be fair and reasonable after taking into account the fact that (i) the Group has been recording losses for the fifteen months ended 30th September, 2001 and the year ended 30th September, 2002; (ii) the Group had audited consolidated net liabilities of approximately HK$95.2 million as at 30th September, 2002; and (iii) the thin trading volume of the Previous Shares (the average trading volume of the Previous Shares during the year ended 2nd May, 2003 (being the last trading day prior to suspension of trading in the Previous Shares on the Stock Exchange pending the issue of the Announcement) amounted to approximately 795,000 Previous Shares per trading day, representing approximately 0.06% of the entire issued Previous Shares).

INFORMATION ON THE SUBSCRIBERS

Each of the Subscribers is a limited company incorporated in the British Virgin Islands. Since their respective incorporation, none of the Subscribers has conducted any business apart from the entering into of the Subscription Agreement.

Silver Rich Macau Development Limited is wholly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Sonny Yeung Hoi Sing. Mr. Sonny Yeung Hoi Sing, Mr. Alfred Yeung Onshing and Mr. Bosco Tso Hon Sai are the directors of Silver Rich Macau Development Limited. Spring Wise Investments Ltd. is beneficially owned as to 50% by Mr. Chan Hon Keung and as to 50% by Mr. Chan William. Ontime Group Ltd., which is owned as to 50% by each of Mr. Chan Hon Keung and Mr. Chan William, is the sole corporate director of Spring Wise Investments Ltd. Mr. Chan Hon Keung and Mr. Chan William are also the directors of Ontime Group Ltd. Leader Assets Ltd. is wholly and beneficially owned by Mr. Lam Shu Chung. Mr. Lam Shu Chung is the sole director of Leader Assets Ltd.

Mr. Sonny Yeung Hoi Sing, aged 49, has been the National Committee Member of the Chinese People's Consultative Conference, the People's Republic of China since 1993. Mr. Sonny Yeung Hoi Sing has over 20 years of working experience in the finance industry of Hong Kong including holding managerial roles in financial services such as leveraged foreign exchange trading, securities and future brokerage. At present, Mr. Sonny Yeung Hoi Sing is the sole beneficial owner of Young Champion, a private company incorporated in Hong Kong, which is a licensed corporation under the Securities and Futures Ordinance and a participant of the Stock Exchange and is principally engaged in the provision of securities trading.

Mr. Chan Hon Keung, aged 53, has been a committee member of the Chinese People's Political Consultative Conference, Jiangxi Provincial Committee since 2002. Mr. Chan Hon Keung has been a director of a company engaged in the trading of futures in Hong Kong from 1980 to 1997 and has over five years of experience in the trading of foreign exchange. Mr. Chan Hon Keung has joined Young Champion since June 2002. At present, Mr. Chan Hon Keung is the vice president of Young Champion.

Mr. Chan William, aged 28, is a director of Tung Wah Group of Hospitals (2003/2004), the Current Advisor of Yan Chai Hospital 36th Term Board of Directors and the Divisional Vice President of Hong Kong St. John Ambulance Brigade Headquarters Command. Mr. Chan William has joined Young Champion Securities Limited since March 2001. At present, Mr. Chan William is the Account Manager of Young Champion. Mr. Chan William is the son of Mr. Chan Hon Keung.

Mr. Lam Shu Chung, aged 46, is the marketing director of Young Champion. Before joining Young Champion, Mr. Lam Shu Chung has worked for a number of international financial institutions and has over 10 years of working experience in the business of dealing in foreign exchange in Hong Kong. Mr. Lam Shu Chung has joined Young Champion since October 1999.

Each of the Subscribers is independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company, CSH, Grand Orient, any of their subsidiaries and any of their respective associates. As at the Latest Practicable Date, the Subscribers and parties acting in concert with them do not hold any Shares. The Subscribers and parties acting in concert with them have confirmed that they have not acquired any issued share capital in the Company during the six-month period prior to the date of the Announcement and up to the Latest Practicable Date. The Subscribers have also undertaken that none of them nor any parties acting in concert with them will acquire or dispose of any Shares during the period commencing from the Latest Practicable Date up to and including the date of the EGM.

Silver Rich Macau Development Limited is wholly-owned by a discretionary trust, the beneficiaries of which are family members of Mr. Sonny Yeung Hoi Sing. Full Ample Limited, a company wholly and beneficially owned by Mr. Sonny Yeung Hoi Sing, has made the Full Ample Indebtedness of HK$25 million to the Company to provide financing for the operations of the Group, which bears interest at 2% per annum and was originally repayable on 28th May, 2003 and was extended to 15th July, 2003 by a supplemental agreement dated 28th May, 2003 and to 15th August, 2003 by another supplemental agreement dated 16th June, 2003. Prior to the entering into of the Subscription Agreement, Mr. Sonny Yeung Hoi Sing, through Full Ample Limited, has been a creditor of the Company. Prior to the entering into of the agreement in relation to the Full Ample Indebtedness on 28th February, 2003, Mr. Sonny Yeung Hoi Sing did not have any relationship with the Company. The provision of the Full Ample Indebtedness represents one of the personal investment activities of Mr. Sonny Yeung Hoi Sing. Full Ample Limited has not conducted any business since its incorporation apart from the provision of the Full Ample Indebtedness.

TAKEOVERS CODE IMPLICATIONS FOR THE SUBSCRIBERS

Immediately after Subscription Completion but before Placing Completion, the Subscribers and parties acting in concert with them will be interested in 1,043,200,000 Shares, representing approximately 87.5% of the entire issued share capital of the Company as enlarged by the Subscription Shares. Further details of the shareholding structure of the Company are given under the section headed “Shareholding structure of the Company” in the Letter from the Board of the Circular. Accordingly, unless the Whitewash Waiver is granted, the Subscribers and parties acting in concert with them (if any) would be obliged, upon Subscription Completion, to make an unconditional mandatory cash offer to acquire all the Shares, other than those already owned or agreed to be acquired by the Subscribers or parties acting in concert with them (if any) under Rule 26 of the Takeovers Code.

WHITEWASH WAIVER

An application has been made by the Subscribers to the Executive for the granting of the Whitewash Waiver. The Executive has indicated his agreement to grant the Whitewash Waiver, subject to the approval of the Independent Shareholders by way of poll at the EGM. Therefore, if the Whitewash Waiver is not approved by the Independent Shareholders and such condition is not waived by the Subscribers, the Subscription Agreement will lapse. The Subscribers have no intention to waive such condition. According to the Subscription Agreement, the Subscribers may only waive such condition upon production of sufficient proof to the satisfaction of the SFC that the Subscribers have the financial capability to make the mandatory general offer for the Shares not already owned or agreed to be acquired by the Subscribers or any parties acting in concert with them (if any) as a result of Subscription Completion in accordance with the provisions of the Takeovers Code. In addition, the Subscribers have undertaken to Tai Fook Capital Limited not to waive such condition unless Tai Fook Capital Limited is satisfied that the Subscribers have sufficient financial capability to make the aforesaid mandatory general offer.

The Whitewash Waiver would be subject to approval of the Independent Shareholders who are not interested in or involved in the Subscription Agreement at the EGM by way of poll.

As the Subscribers will be interested in more than 50% of the entire issued share capital of the Company after Subscription Completion and Placing Completion, the Subscribers may further acquire the Shares without incurring any obligation to make a general offer to acquire all the Shares (other than those already owned or to be acquired by the Subscribers or parties acting in concert with them) under Rule 26 of the Takeovers Code.

INTENTION OF THE SUBSCRIBERS

Business

Following Subscription Completion, the Subscribers intend that the Group will continue its existing businesses of construction, civil engineering and retail trading in Hong Kong. The Subscribers do not intend to make any material change to such businesses including any redeployment of the fixed assets of the Group. However, in view of the Group's consecutive operating losses, the Subscribers will conduct a review of the financial position and operations of the Group with a view to enhancing the operations and future development of the Group. The Subscribers have no intention or any plans to inject any assets into the Group or dispose of any of the Group's assets, other than in the Group's ordinary course of business after Subscription Completion. The Subscribers intend to hold the Subscription Shares as long-term investments and have no arrangement, agreement or understanding to transfer the Subscription Shares to any other persons.

Management

At present, the Board comprises three executive Directors, one non-executive Director and two independent non-executive Directors. It is intended that the three executive Directors and one non-executive Director will resign upon Subscription Completion. Upon Subscription Completion, the Subscribers will nominate new executive Directors to the Board to manage the operations and development of the Group. Save for the above, the Subscribers do not intend to make any other material change to the management and continued employment of the employees of the Group. Further announcement will be made by the Company of any change in the composition of the Board.

MAINTAINING THE LISTING STATUS OF THE COMPANY

It is the intention of the Subscribers to maintain the listing of the Shares on the Stock Exchange after the Subscription Completion. Accordingly, the Subscribers have jointly and severally undertaken to the Stock Exchange to take necessary steps to ensure that the public float of the Shares will not be less than 25% immediately after Subscription Completion and Placing Completion. Further announcement will be made, if required, in relation to any action taken in respect of the public float of the Shares to ensure compliance with the Listing Rules.

The Stock Exchange has stated that it will closely monitor trading in the Shares if less than 25% of the Shares are held by the public. If the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares. In addition, the Stock Exchange has stated that it will suspend trading in the Shares if less than 10% of the Shares are held by the public.

If the Company remains as a listed company, any future acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

FURTHER INFORMATION

Your attention is drawn to the Letter from the Board set out on pages 5 to 19 of the Circular, the letter of advice from the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver set out on page 25 of the Circular, the letter of advice from EYCFL to the Independent Board Committee in relation to the Subscription and the Whitewash Waiver set out on pages 26 to 40 of the Circular and additional information set out in the appendices to the Circular.

By the order of the board
Silver Rich Macau Development Limited
Sonny Yeung Hoi Sing
Director

By the order of the board
Spring Wise Investments Ltd.
Chan Hon Keung

By the order of the board
Leader Assets Ltd.
Lam Shu Chung
Director

CHINA DEVELOPMENT CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability)

2nd July, 2003

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

We refer to the circular dated 2nd July, 2003 issued to the Shareholders (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same respective meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the Subscription and the granting of the Whitewash Waiver are in the interests of the Group and the Independent Shareholders as a whole. EYCFL has been appointed as the independent financial adviser to advise us in connection with the Subscription and the Whitewash Waiver.

Having taken into account the advice of EYCFL and, in particular, the principal factors and recommendation set out in the letter from EYCFL on pages 26 to 40 of the Circular, we consider that the terms of the Subscription Agreement are fair and reasonable in the circumstances and that the Subscription and the granting of the Whitewash Waiver are in the interests of the Group and the Independent Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully,

Mr. Choi Kin Pui, Russelle **Mr. Luk Ka Yee, Patrick**

Independent Board Committee

The following is the text of a letter from EYCFL in connection with the Subscription and the Whitewash Waiver which has been prepared for the purpose of inclusion in this circular:

ERNST & YOUNG

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2nd July, 2003

The Independent Board Committee
China Development Corporation Limited
8/F, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

PROPOSED SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee with respect to the Subscription and the application for the Whitewash Waiver, details of which are set out in the circular of the Company dated 2nd July, 2003 (the "Circular") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

The Board comprises Mr. Kwok Ka Lap, Alva, Mr. Lam Siu Sek, Mr. Ng Wai Ming, Mr. Lien Kait Long, Mr. Choi Kin Pui, Russelle and Mr. Luk Ka Yee, Patrick. Mr. Kwok Ka Lap, Alva has been involved in the negotiation of the Subscription. Mr. Lam Siu Sek and Mr. Ng Wai Ming are salaried employees of the Group. As at the Latest Practicable Date, Mr. Lien Kait Long held certain shares and warrants of CSH, which is a party to the Deed of Settlement, and was a director of certain subsidiaries of CSH. Accordingly, Mr. Kwok Ka Lap, Alva, Mr. Lam Siu Sek, Mr. Ng Wai Ming and Mr. Lien Kait Long are not regarded as independent under the Takeovers Code for the purpose of advising the Independent Shareholders on the Subscription and the Whitewash Waiver. The Independent Board Committee, comprising Mr. Choi Kin Pui, Russelle and Mr. Luk Ka Yee, Patrick, has been constituted to give advice and recommendation to the Independent Shareholders on the Subscription and the Whitewash Waiver.

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee for it to advise the Independent Shareholders as to whether the terms of the Subscription are fair and reasonable and whether the Subscription and the granting of the Whitewash Waiver are the interests of the Independent Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Circular and those supplied or made by the Directors and management of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors and management of the Company that no material facts has been withheld or omitted from such information and representations.

We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of the information or any independent in-depth investigation into the business, affairs, financial position or prospect of the Group or those of the Subscribers nor have we carried out any in-depth research on the Group or the Subscribers or the current state or likely prospects of the industries in which the Group and the Subscribers operate.

PRINCIPAL FACTORS

In formulating our opinion in respect of the Subscription and the Whitewash Waiver, we have taken into consideration, among other things, the following principal factors:

Background to and reasons for the Subscription

Principal activities and operating results of the Group

The Group is principally engaged in construction, foundation and civil engineering business in Hong Kong, and operation of a department store in Hong Kong. Prior to the completion of a business restructuring of the Group in October 2002, the Group was principally engaged in construction business in Singapore which had a focus on foundation and civil engineering contracting, marine engineering contracting and hiring and repair of vessels, construction equipment and machinery.

The table below sets out the audited results of the Group for the past three financial periods and the unaudited results of the Group for the six months ended 31st March, 2003:

	Six months ended 31st March, 2003 (Unaudited) *HK$'000*	**Year ended 30th September, 2002 (Audited)** *HK$'000*	**15 months ended 30th September, 2001 (Audited)** *HK$'000*	**Year ended 30th June, 2000 (Audited)** *HK$'000*
Turnover	50,550	302,263	441,827	634,427
Loss before taxation	(1,351)	(115,715)	(326,004)	(173,912)
Net loss	(1,400)	(115,407)	(329,251)	(173,125)

A substantial portion of the Group's past audited turnover came from the Group's construction business in Singapore which was disposed of by the Group in October 2002 (as referred to in the paragraph headed "Business restructuring" below). The loss-making track record of the Group for the past few years had been severely adversely affected by, among other things, the recession of the construction industry in Singapore, provisions for doubtful receivables of significant amounts and diminution in value of the Group's investments.

According to the unaudited interim report of the Company, the Group recorded turnover of approximately HK$50.6 million and net loss of approximately HK$1.4 million for the six months ended 31st March, 2003. The Group's newly acquired construction business in Hong Kong contributed approximately HK$16.4 million of the total turnover and the Group's newly acquired retail business in Hong Kong contributed approximately HK$34.1 million thereof. Both principal businesses were loss making for the six months ended 31st March, 2003.

Business restructuring

During the year ended 30th September, 2002, the Group carried out a series of transactions with a view to revitalizing the business and improving the financial position of the Group. In August 2002, the Group entered into an agreement for disposing of its loss-making construction business in Singapore, which disposal was completed in October 2002. After the disposal of its Singapore construction business, the Group has been focusing on its newly acquired construction and engineering business in Hong Kong and has also diversified into retail trading in Hong Kong. In August 2002, the Group also entered into a debt restructuring agreement with Grand Orient and CSH whereby CSH agreed to grant a new facility to the Company of an amount up to approximately HK$48.6 million and Grand Orient agreed to grant an indulgence to the Company in respect of the repayment of the amounts owing by the Company to Grand Orient under the then Loan Agreements.

In January 2003, the Company announced the Capital Reorganisation with a view to eliminating part of the accumulated losses of the Company. As part of the Capital Reorganisation, 10 shares of the Company have been consolidated into 1 Share and the par value of the shares of the Company has been effectively reduced from HK$0.40 each to HK$0.01 each.

In February 2003, through a number of transactions (as disclosed in an announcement of the Company dated 14th January, 2003), the Group effectively disposed of its investment in a toll road operation in the People's Republic of China at a total cash consideration of US$4,150,000 (equivalent to approximately HK$32.4 million). Proceeds of the disposal were used by the Group as its general working capital.

Full Ample Limited, a company wholly and beneficially owned by Mr. Sonny Yeung Hoi Sing (whose family members are the beneficiaries of a discretionary trust that wholly owns Silver Rich Macau Development Limited, being one of the Subscribers), provided a short-term loan of HK$25 million to the Company pursuant to a loan agreement dated 28th February, 2003.

Prospects of the Group

As stated in the letter from the Board in the Circular and the interim report of the Company for the six months ended 31st March, 2003, the operating environment in construction and engineering business remains difficult owing to the sustained economic recession and sluggish property market in Hong Kong. Intense competition also exerted downward pressure on the tender prices of construction projects in general. In view of the situation, the Directors expect that the performance of the construction and engineering business in Hong Kong is still under pressure.

At the time of issuing the annual report for the year ended 30th September, 2002, the Company was optimistic about the development of its retail department store operation after taking into consideration the increasing effort made by the Hong Kong Government in supporting the development of tourism business in Hong Kong and the growing number of tourists from Mainland China. However, as a result of the recent spread of Severe Acute Respiratory Syndrome ("SARS") in Hong Kong and Mainland China, the retail market and the tourism industry in Hong Kong have been severely adversely affected. Accordingly, we believe that any recovery of the retail market in Hong Kong will take a longer period of time than originally expected by the Directors. As stated in the interim report of the Company for the six months ended 31st March, 2003, the results of the Group's retail business were affected by the keen competition in the domestic market. As stated in the letter from the Board in the Circular, the Directors are of the view that the retail business of the Group will continue to be affected by the Hong Kong economy which has not shown significant sign of recovery and the tourism industry still remains depressed in general. Hong Kong has currently been removed from the list of SARS-infected areas by the World Health Organisation. The Directors believe that this may help improve the business environment of the retail business of the Group.

Apart from the two principal businesses as described above, the Group also intends to continue to explore new business and investment opportunities with good potential with a view to diversifying the Group's business and bringing in new source of income to the Group.

Financial position and liabilities of the Group

As at 30th September, 2002, the Company and the Group recorded audited deficiencies in net assets of approximately HK$85.6 million and approximately HK$95.2 million (restated) respectively. The auditors of the Company stated in their report in relation to the financial statements of the Group for the year ended 30th September, 2002 that the ability of the Company and the Group to continue as a going concern would depend on future funding being available. As at 31st March, 2003, the Group had unaudited deficiencies in net assets of approximately HK$96.6 million.

As at 31st March, 2003, the Company and the Group had unaudited total liabilities of approximately HK$90.7 million and approximately HK$125.4 million respectively which included the Indebtedness of approximately HK$52.4 million (comprising the Debt of approximately HK$0.1 million and the amounts due under the Loan Agreements of approximately HK$52.3 million) and the Full Ample Indebtedness of approximately HK$25.0 million. Independent Shareholders should also refer to the "Unaudited interim results for the six months ended 31st March, 2003" in Appendix I to the Circular for details of the liabilities of the Group as at 31st March, 2003 and the "Indebtedness statement" in Appendix I to the Circular for the indebtedness position of the Group as at 30th April, 2003.

The Subscription Agreement, the Deed of Settlement and the Placing Agreement

On 20th May, 2003, the Company entered into the Subscription Agreement with the Subscribers. Under the Subscription Agreement, the Subscribers will subscribe for the Subscription Shares at a price of HK$0.0671 per Share. The total consideration payable by the Subscribers to the Company under the Subscription Agreement is HK$69,998,720. Each of the Subscribers is independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company, CSH, Grand Orient, any of their subsidiaries and any of their respective associates. As stated in the Circular, the Subscribers and parties acting in concert with them did not hold any Shares as at the Latest Practicable Date.

At Subscription Completion, the Company shall, among other things, deliver to the Subscribers the duly executed Deed of Settlement with CSH and Grand Orient in respect of the settlement of the Indebtedness. We understand from the Company that it is the intention of the Company, CSH and Grand Orient to execute the Deed of Settlement upon Subscription Completion. Pursuant to the terms of the Deed of Settlement in the form annexed to the Subscription Agreement, subject to the payment of the Settlement Sum in an amount of HK$20 million by the Company to CSH or Grand Orient or as it may direct on or before 15th August, 2003 (or such other date as the parties may agree in writing), each of the Company, CSH and Grand Orient will irrevocably and unconditionally (a) waive, release and discharge each other in their entirety from (i) all their respective obligations and liabilities under the Debt and the Loan Agreements and (ii) any past or existing claims which the parties may have against each others in connection with the Debt and the Loan Agreements; (b) undertake not to make any further claim against each others in connection with the Debt and the Loan Agreements; and (c) confirm that after payment of the Settlement Sum, none of the parties shall have any obligation or liability to the others in respect of the Debt and under the Loan Agreements.

Pursuant to the terms of the Subscription Agreement, the Company shall upon Subscription Completion, among other things, repay the Full Ample Indebtedness in full. As set out above, Full Ample Limited is a company beneficially owned by Mr. Sonny Yeung Hoi Sing whose family members are the beneficiaries of a discretionary trust that wholly owns Silver Rich Macau Development Limited, being one of the Subscribers, which will subscribe for 678,080,000 new Shares pursuant to the Subscription Agreement for a total consideration of approximately HK$45.5 million. We understand from the Company that it is proposed that the Full Ample Indebtedness will be settled by the proceeds from the Subscription.

Pursuant to the Subscription Agreement, the Company is also required to, among other things, settle certain other outstanding indebtedness due and owing by the Company up to 31st March, 2003 upon Subscription Completion. We understand from the Company that such indebtedness comprises certain accounts payable outstanding as at 31st March, 2003 (the "Other Indebtedness") of approximately HK$2.6 million (based on the unaudited balance sheet of the Company as at 31st March, 2003) in relation to certain professional fees, licence fees, consultancy fees and other expenses incurred previously by the Company. We understand from the Company that it intends to settle the Other Indebtedness using the internal resources of the Group such as its available cash balance.

Based on our above understanding, the proposed settlement upon Subscription Completion of the Full Ample Indebtedness (which will be due for repayment on the long-stop date of the Subscription Agreement on 15th August, 2003) and the Other Indebtedness (which have been overdue) should not have any negative impact on the working capital and liquidity position of the Group.

On 20th May, 2003, the Company also entered into the Placing Agreement with Tai Fook Securities Company Limited to place, on a best-efforts basis, up to a maximum of 298,000,000 new Shares at an issue price of HK$0.0671 (same as the issue price of the Subscription Shares). The maximum gross proceeds of the Placing amount to HK$19,995,800. Placing Completion is conditional, among other things, upon the Subscription Agreement becoming unconditional in all respects in accordance with its terms.

Reasons for and benefits of the Subscription

As stated in the letter from the Board in the Circular, the Company entered into the Subscription Agreement and the Placing Agreement in view of the continuing unfavourable operating environment and the liquidity and financial position of the Group. The Directors consider that the Subscription and the Placing will provide new source of funding to the Group (i) for the payment of the Settlement Sum of HK$20 million to settle the Indebtedness in full, resulting in an unaudited gain of approximately HK$32.4 million (based on the Indebtedness of approximately HK$52.4 million as at 31st March, 2003) which is expected to be recognised in the profit and loss account of the Group for the year ending 30th September, 2003; (ii) for the settlement of the Full Ample Indebtedness; (iii) for meeting the financial needs of the operations and development of the existing business of the Group; and (iv) for investing in new business with good potential in order to diversify the Group's business and bring in new source of income which is in line with the Group's mission of enhancing the value of its investments and seeking opportunities for its synergistic growth.

On the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement, the estimated net proceeds from the Subscription and the Placing will amount to approximately HK$89 million. The Directors intend to apply such net proceeds as to HK$20 million to pay the Settlement Sum, as to approximately HK$25 million to settle the Full Ample Indebtedness and as to approximately HK$44 million as general working capital for meeting the financial needs of the operations of the existing business of the Group and, when opportunities arise, for investing in new business with good potential which may or may not be in line with the existing principal activities of the Group.

In view of (i) the continuing operating loss of the Group; (ii) the deficiencies in net assets of the Company and the Group; and (iii) the funding requirement to enable the Company and the Group to continue as a going concern, we concur with the Directors' view that the entering into of the Subscription Agreement and the Placing Agreement provides an opportunity for the Group to strengthen its financial position and provide necessary working capital for its ongoing operations.

Issue price of the Subscription Shares

The issue price per Subscription Share represents:

- a discount of approximately 39.0% to the theoretical closing price of HK$0.1100 per Share assuming that the Capital Reorganisation had been completed on 2nd May, 2003, which is calculated based on 10 times the closing price of the Previous Shares as quoted on the Stock Exchange on 2nd May, 2003, being the last trading day of the Previous Shares on the Stock Exchange prior to the issue of the Announcement;

- a discount of approximately 43.1% to the theoretical average closing price of HK$0.1180 per Share assuming the Capital Reorganisation had been completed before the last 10 consecutive trading days up to and including 2nd May, 2003, which is calculated based on 10 times the closing prices of the Previous Shares as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 2nd May, 2003;

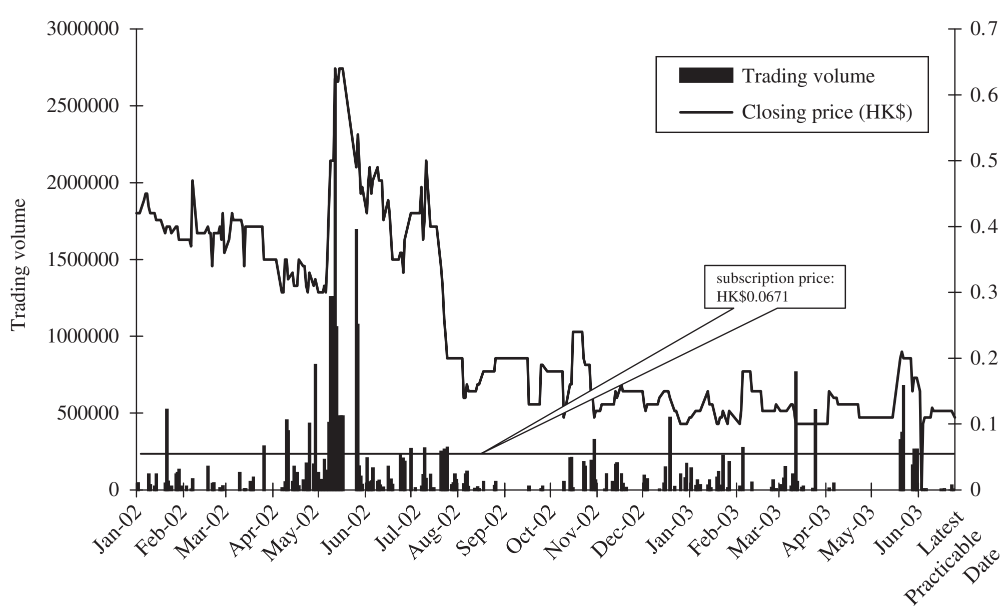
- a discount of approximately 42.0% to the theoretical average closing price of approximately HK$0.1157 per Share assuming the Capital Reorganisation had been completed before the last 30 consecutive trading days up to and including 2nd May, 2003, which is calculated based on 10 times the closing prices of the Previous Shares as quoted on the Stock Exchange over the last 30 consecutive trading days up to and including 2nd May, 2003;

- a discount of approximately 41.7% to the closing price of HK$0.115 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- a discount of approximately 44.1% to the average closing price of approximately HK$0.120 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including the Latest Practicable Date; and

- a discount of approximately 51.4% to the average closing price of approximately HK$0.138 per Share as quoted on the Stock Exchange over the last 30 consecutive trading days up to and including the Latest Practicable Date.

Prior to the date of the Announcement, the Previous Shares had been traded at prices approaching the lowest trading limit, i.e. HK$0.01, and the trading liquidity of the Previous Shares had been low. The chart below shows the daily closing prices (and theoretical daily closing prices for the period between 2nd January, 2002 to 30th May, 2003, being the last trading day prior to 2nd June, 2003, the effective date of the Capital Reorganisation) and daily trading volume (and theoretical daily trading volume for the period between 2nd January, 2002 to 30th May, 2003) of the Shares on the Stock Exchange from 2nd January, 2002 to the Latest Practicable Date.



Data source: Infocast

Note: Daily closing prices and trading volume of the Previous Shares prior to the effective date of the Capital Reorganisation (2nd June, 2003) have been adjusted to reflect the effect of the Capital Reorganisation (in particular, 10 Previous Shares have been consolidated into 1 Share) as if the Capital Reorganisation had become effective on 2nd January, 2002.

Trading in the Shares took place only on 173 out of a total of 318 trading days on the Stock Exchange for the period from 1st January, 2002 to 2nd May, 2003, being the last trading day of the Previous Shares on the Stock Exchange prior to the issue of the Announcement. The average daily trading volume of the Shares on the Stock Exchange for the period from 2nd January, 2002 to 2nd May, 2003 was approximately 78,800 Shares (assuming the Capital Reorganisation had become effective on 2nd January, 2002), representing approximately 0.05% of the Shares in issue and approximately 0.08% of the Shares held by public Shareholders as at the Latest Practicable Date. Apart from certain isolated surges in trading volume over the said period (noticeably in May and June 2002), we consider that the general level of liquidity in the Shares is relatively low.

We note that (i) the Previous Shares have been traded at prices approaching the lowest trading limit of HK$0.01 prior to the date of the Announcement; (ii) the Previous Shares have been thinly traded in general; (iii) the Group has been recording losses for the past five financial periods; (iv) the Group had deficiencies in net assets of approximately HK$95.2 million (audited and restated) as at 30th September, 2002 and approximately HK$96.6 million (unaudited) as at 31st March, 2003; (v) the auditors of the Company have stated that the ability of the Company and the Group to continue as a going concern would depend on future funding being available; and (vi) the Subscription provides an opportunity for the Group to substantially improve its financial position . Given the prolonged adversity faced by the Group, the Subscription may be viewed as a quasi-rescue exercise.

In view of the foregoing, we consider that the significant discount of the issue price of the Subscription Shares to the historical closing prices of the Shares is acceptable in the circumstances.

Financial effects on the Group

Net asset backing

Net proceeds of approximately HK$70 million will be raised by the Company through the Subscription which will help the Company obtain working capital and increase the equity capital of the Company and the net asset backing of the Group.

We understand from the Company that upon Subscription Completion, the Deed of Settlement will be executed. Pursuant to the Deed of Settlement, the Indebtedness, amounting to approximately HK$52.4 million as at 31st March, 2003, will be fully settled upon the Company paying the Settlement Sum of HK$20 million to CSH or Grand Orient or as it may direct. Based on the amount of the Indebtedness as at 31st March, 2003, an unaudited accounting gain of approximately HK$32.4 million is expected to be recorded by the Group as a result of the proposed settlement of the Indebtedness. Accordingly, the proposed settlement of the Indebtedness pursuant to the Deed of Settlement will further enhance the net asset value of the Company and the Group.

As set out in the "The statement of unaudited proforma adjusted consolidated net tangible assets" in Appendix I to the Circular, immediately following Subscription Completion, Placing Completion and completion of the Deed of Settlement, (i) the proforma adjusted consolidated net tangible asset value of the Group would be approximately HK$18.9 million (as compared to the proforma adjusted consolidated net liabilities of the Group of approximately HK$103.0 million immediately prior to Subscription Completion, Placing Completion and completion of the Deed of Settlement) and (ii) the proforma adjusted consolidated net tangible asset value per Share would be approximately HK$0.013 (as compared to the proforma adjusted consolidated net liabilities per Share of approximately HK$0.691 immediately prior to Subscription Completion, Placing Completion and completion of the Deed of Settlement).

Gearing and working capital

As at 31st March, 2003, the unaudited total liabilities of the Group were approximately HK$125.4 million, among which

- the Full Ample Indebtedness (amounted to approximately HK$25.0 million as at 31st March, 2003) will be settled by the proceeds from the Subscription;
- the Other Indebtedness (amounted to approximately HK$2.6 million as at 31st March, 2003) will be settled upon Subscription Completion; and
- the Indebtedness (amounted to approximately HK$52.4 million as at 31st March, 2003) will be fully settled pursuant to the Deed of Settlement to be executed.

Excluding the Full Ample Indebtedness, the Other Indebtedness and the Indebtedness, the remaining liabilities of the Group amounted to approximately HK$45.4 million as at 31st March, 2003.

We understand from the Company that on the assumption that all of the 298,000,000 new Shares are placed pursuant to the Placing Agreement, the amount of the estimated net proceeds from the Subscription and the Placing is approximately HK$89 million, of which approximately HK$20 million will be applied to pay the Settlement Sum, approximately HK$25 million will be applied to settle the Full Ample Indebtedness, and approximately HK$44 million (the "Remaining Proceeds") will be applied as general working capital of the Group. As stated in the letter from the Board in the Circular, after taking into account the existing financial resources available to the Group, including cash and bank balance (approximately HK$3.6 million based on the Group's unaudited balance sheet as at 31st March, 2003) and other current assets (approximately HK$14.5 million based on the Group's unaudited balance sheet as at 31st March, 2003) of the Group, and the aforesaid net proceeds from the Subscription and Placing, the Directors consider that the Group would have sufficient funding to repay its liabilities as at 31st March, 2003 when they fall due following completion of the Deed of Settlement, Subscription Completion and Placing Completion.

We understand from the Company that despite the amounts due under the Loan Agreements of approximately HK$52.3 million as at 31st March, 2003 are repayable in April 2004, such balances were classified as current liabilities in the unaudited balance sheet of the Group as at 31st March, 2003 as a result of the proposed settlement pursuant to the Deed of Settlement. Based on the unaudited balance sheet of the Group as at 31st March, 2003, the Group had total current assets of approximately HK$18.1 million and total current liabilities of approximately HK$113.2 million. Assuming that Subscription Completion, Placing Completion and completion of the Deed of Settlement took place on 31st March, 2003,

- the total current liabilities of the Group would be reduced by approximately HK$80.0 million (being the sum of the Full Ample Indebtedness, the Other Indebtedness and the Indebtedness) while the total current assets of the Group would be increased by approximately HK$41.4 million (the Remaining Proceeds of approximately HK$44 million less the proposed payment of the Other Indebtedness of approximately HK$2.6 million), thereby increasing the net working capital (being total current assets less total current liabilities) of the Group by approximately HK$121.4 million and turning the Group's working capital position from a net current liability position of approximately HK$95.1 million to a net current asset position of approximately HK$26.3 million; and

- the total borrowings (including bank and other borrowings and obligations under a finance lease) of the Group would be reduced by approximately HK$77.3 million (being the sum of the Full Ample Indebtedness and the amounts due under the Loan Agreements) from approximately HK$95.4 million to approximately HK$18.1 million while the shareholders' equity of the Group would be increased by the net proceeds from the Subscription and the Placing of approximately HK$89 million and the expected accounting gain of approximately HK$32.4 million arising from the settlement of the Indebtedness, thereby improving the gearing position (being total borrowings over shareholders' equity) of the Group.

Based on the above, we consider that the Subscription, together with the Placing and the proposed settlement of the Indebtedness pursuant to the Deed of Settlement, will improve the gearing and working capital position of the Group.

Earnings

Among the Indebtedness, the aggregate principal and interest outstanding in respect of the loans from Grand Orient to the Group pursuant to the Loan Agreements amounted to approximately HK$52.3 million as at 31st March, 2003. Such loans bear interest at rates ranging from prime rate plus 1% to 2% per annum. For the year ended 30th September, 2002, the total interest expenses in respect of the loans under the Loan Agreements were approximately HK$3.2 million.

Settlement of the Indebtedness upon completion of the Deed of Settlement will help the Group reduce its interest expenses thereby enhancing the earnings of the Group.

Conclusion

Based on the above analysis, we are of the view that the Subscription, the Placing and the execution of the Deed of Settlement will have positive effect on the Company and the Group in terms of net asset backing, gearing and working capital position and earnings.

Intention of the Subscribers relating to the Group

Business

It is stated in the letter from the Subscribers in the Circular that the Subscribers intend to hold the Subscription Shares as long-term investments. The Subscribers have no intention or any plan to inject any assets into the Group or dispose of any of the Group's assets, other than in the Group's ordinary course of business. The Subscribers intend that the Group will continue its existing businesses of construction, civil engineering and retail trading in Hong Kong. The Subscribers do not intend to make any material change to such businesses including any redeployment of fixed assets of the Group. However, in view of the Group's continuing operating losses, the Subscribers will conduct a review of the financial position and operations of the Group with a view to enhancing the operations and future development of the Group.

As the Subscribers do not have any plan relating to the business development of the Group, we are not in a position to comment on the prospects of the Group in the absence of such a business plan. As stated in the letter from the Board in the Circular, the Group may utilise the funding from the Subscription and the Placing to invest in new business with good potential in order to diversify the Group's business and bring in new source of income which is in line with the Group's mission of enhancing the value of its investments and seeking opportunities for its synergistic growth. We concur with the Directors' view that with the additional capital from the Subscription, and possibly from the Placing, the financial position of the Group will be strengthened and the Group will be in a stronger position to continue to develop and/or reposition its existing businesses and/or explore new business opportunities which will help revitalize the business of the Group.

If the Company remains as a listed company, any future acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the Listing Rules to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

Management

As stated in the letter from the Subscribers in the Circular, it is intended that the three executive Directors and the non-executive Director will resign upon Subscription Completion. Mr. Kwok Ka Lap, Alva was recently appointed executive Director in April 2003. Mr. Lam Siu Sek and Mr. Ng Wai Ming were appointed executive Directors in June 2002. All the existing executive Directors do not have a long working history with the Group. We consider that the intended departure of the three executive Directors should not have any material negative impact on the operations of the Group. As stated in the letter from the Subscribers in the Circular, save for the above proposed changes, the Subscribers have no intention to make any other material change to the management and continued employment of the employees of the Group.

As stated in the letter from the Subscribers in the Circular, the Subscribers will nominate new executive Directors to the Board to manage the operations and development of the Group. As the Subscribers have not nominated any new executive Directors as at the date hereof, we are not in a position to make any comment in this regard. Nevertheless, as set out in the letter from the Subscribers in the Circular, the respective beneficial owners of the Subscribers, including Mr. Sonny Yeung Hoi Sing, Mr. Chan Hon Keung, Mr. Chan William and Mr. Lam Shu Chung (together, the "Investors"), have in-depth knowledge in and are experienced practitioners in the securities and finance industry. Despite the fact that the Investors have no experience in managing the existing principal businesses of the Group, we consider that, from the financial and capital management perspective, the experience and knowledge of such persons in the finance industry will be helpful to the Group in its financial restructuring, which is crucial to the Group at the present stage in view of the financial difficulties which the Group has been facing.

Listing

It is the intention of the Subscribers to maintain the listing of the Shares on the Stock Exchange. Immediately after Subscription Completion, the percentage of Shares held by public Shareholders will be less than 25%.

The Stock Exchange has stated that it will closely monitor trading in the Shares if less than 25% of the Shares are held by the public. If the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares. In addition, the Stock Exchange has stated that it will suspend trading in the Shares if less than 10% of the Shares are held by the public.

There is a risk that trading in the Shares may be suspended because of insufficient public float after Subscription Completion. We note that the Company has also entered into the Placing Agreement. Under the Placing, up to a maximum of 298,000,000 new Shares may be issued to investors who are independent of, not connected with and not acting in concert with any of the directors, chief executive or substantial shareholders of each of the Company or the Subscribers, Young Champion Securities Limited, any of their subsidiaries and any of their respective associates. We consider that the Placing should be able to help the Company comply with the public float requirement under the Listing Rules. In addition, the Subscribers have jointly and severally undertaken to the Stock Exchange to take necessary steps to ensure that the public float of the Shares will not be less than 25% immediately after Subscription Completion and Placing Completion.

We consider that maintaining the listing status of the Company is one of the essential elements in preserving the value of the Shares.

Shareholding structure and dilution effect

Set out below is the shareholding structure of the Company immediately after Subscription Completion and Placing Completion:

Name	As at the Latest Practicable Date No. of Shares	%	Immediately after Subscription Completion but before Placing Completion No. of Shares	%	Immediately after Subscription Completion and Placing Completion No. of Shares	%
Cyber Best Trading Limited *(Note 1)*	45,187,069	30.3	45,187,069	3.8	45,187,069	3.0
The Subscribers						
– Silver Rich Macau Development Limited	–	–	678,080,000	56.9	678,080,000	45.5
– Spring Wise Investments Ltd.	–	–	290,606,000	24.4	290,606,000	19.5
– Leader Assets Ltd.	–	–	74,514,000	6.2	74,514,000	5.0
Sub-total	–	–	1,043,200,000	87.5	1,043,200,000	70.0
Placees *(Note 2)*	–	–	–	–	298,000,000	20.0
Other public	103,877,164	69.7	103,877,164	8.7	103,877,164	7.0
Total	149,064,233	100.0	1,192,264,233	100.0	1,490,264,233	100.0

Notes:

1. The entire issued share capital of Cyber Best Trading Limited is beneficially and wholly owned by Mr. Lin Che Chu.

2. As stated in the letter from the Board in the Circular, it is intended that the Placing will be undertaken such that all Placees will be regarded as the public (as defined under the Listing Rules) upon Subscription Completion and Placing Completion.

Independent Shareholders should note that their shareholding interests in the Company will be diluted significantly as a result of the Subscription and the Placing. Upon Subscription Completion, the aggregate shareholding interests of the Independent Shareholders in the Company will decrease from approximately 69.7% to approximately 8.7%. Their aggregate shareholding interests in the Company will be further diluted to approximately 7.0% upon Placing Completion (assuming a maximum of 298,000,000 new Shares will be issued under the Placing).

As stated in the paragraph headed "Issue price of the Subscription Shares" above, the Subscription may be viewed as a quasi-rescue exercise in the context of the Group. We consider that it is common under rescue scenarios that white knights obtain controlling stakes in companies which are in serious financial difficulties by injecting capital to the companies. In the context of formulating our view as to whether the terms of the Subscription are fair and reasonable, we consider the significant dilution to the shareholding interests of the Independent Shareholders in the Company to be acceptable given the financial difficulties of the Group and the expected benefits brought about by the Subscription including the enhancement of the net asset value per Share as described in the paragraph headed "Financial effects on the Group" above.

Whitewash Waiver

As at the Latest Practicable Date, none of the Subscribers and parties acting in concert with them held any Shares save for the entering into of the Subscription Agreement. Immediately after Subscription Completion but before Placing Completion, the Subscribers and parties acting in concert with them will be interested in 1,043,200,000 Shares, representing approximately 87.5% of the enlarged issued share capital of the Company. Accordingly, unless the Whitewash Waiver is granted, the Subscribers and parties acting in concert with them (if any) would be obliged, upon Subscription Completion, to make an unconditional mandatory cash offer to acquire all the Shares, other than those already owned or to be acquired by the Subscribers or parties acting in concert with them (if any) under Rule 26 of the Takeovers Code. The Subscribers have made an application to the Executive for granting of the Whitewash Waiver. The Executive has indicated his agreement to grant the Whitewash Waiver subject to the approval of the Independent Shareholders by way of poll at the EGM.

Upon Subscription Completion, the Subscribers will be interested in more than 50% of the enlarged issued share capital of the Company. If the Whitewash Waiver is granted, the Subscribers will be free to acquire further voting rights in the Company without triggering any mandatory general offer obligation under the Takeovers Code.

The Subscription is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive, which in turn is subject to the approval of the Independent Shareholders by way of poll at the EGM. If the Whitewash Waiver is not granted, the Subscription Agreement will lapse, subject to the Subscribers exercising their absolute discretion under the Subscription Agreement to waive the relevant conditions. The Subscribers will be allowed to waive such conditions upon production of sufficient proof to the satisfaction of the SFC that they have the financial capability to make the mandatory general offer for the Shares not already owned or agreed to be acquired by the Subscribers or any parties acting in concert with them (if any) as a result of Subscription Completion in accordance with the provisions of the Takeovers Code. In addition, the Subscribers have undertaken to Tai Fook Capital Limited that they will not waive such conditions unless Tai Fook Capital Limited is satisfied that the Subscribers have sufficient financial capability to make the aforesaid mandatory general offer. Independent Shareholders should note that the Subscribers may or may not waive such conditions and any waiver of such conditions will require the satisfaction of the prerequisites set out above. As set out in the letter from the Board in the Circular, the Subscribers have confirmed that they have no intention to waive such conditions.

As described above, the Subscription will provide the Group with fresh working capital and will help the Group strengthen its financial position with a view to furthering its business development. If the Subscription does not proceed, the Placing Agreement will lapse and the Deed of Settlement will not be executed. The Company will have to continue to face its current financial difficulties and to look for other sources of working capital. In view of the benefits of the Subscription, we consider that the granting of the Whitewash Waiver as an integral part of the Subscription is in the interests of the Company and the Independent Shareholders as a whole.

CONCLUSION

Having considered the principal factors as discussed above, in particular:

- the loss-making track record and deficiencies in net assets of the Group;
- the financial difficulties that the Group has been facing;
- the equity capital and expected benefits brought about by the Subscription to the Group;
- the expected enhancement in the net asset backing and gearing and working capital position of the Group,

we consider that the terms of the Subscription are fair and reasonable in the circumstances and that the Subscription and the granting of the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Ernst & Young Corporate Finance Limited
Cecilia Ng
Executive Director

1. THREE YEAR SUMMARY

RESULTS

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

ASSETS AND LIABILITIES

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

2. REPORT OF THE AUDITORS

The following is the report of the auditors of the Company on the financial statements of the Group for the year ended 30th September, 2002 as extracted from 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 44 to 83 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.

John K.H. Lo & Co.
Certified Public Accountants

Hong Kong
13th February, 2003

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Consolidated Income Statement

For the year ended 30th September, 2002

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

Balance Sheet

At 30th September, 2002

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

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

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

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

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

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

Notes to the Financial Statements
For the year ended 30th September, 2002

1 CORPORATE INFORMATION

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

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

2 FUNDAMENTAL ACCOUNTING CONCEPTS

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

3 PRINCIPAL ACCOUNTING POLICIES

a) Basis of preparation

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

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

b) Basis of consolidation

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

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

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

c) Subsidiary companies

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

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

d) Associated companies

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

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

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

e) Goodwill

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

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

f) Property, plant and equipment

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

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

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

Buildings on freehold land	5%
Leasehold land and buildings	Over the term of the lease
Vessels, plant and machinery	10% - $33^1/_3$%
Furniture and fittings, office equipment motor vehicles and computer software	10% - $33^1/_3$%

No depreciation is charged on freehold land.

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

g) Revenue recognition

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

(i) revenue from construction contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where a profitable outcome can be prudently foreseen and is measured by reference to the production of costs incurred for work performed to the balance sheet date as compared to the estimated total costs to completion. Anticipated losses on contracts are fully provided when identified.

(ii) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(iii) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably.

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

h) Leases

(i) Finance leases

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

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

(ii) Hire purchase contracts

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

(iii) Operating leases

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

i) Investments

(i) Long term investments

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

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

(ii) Short term investments

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

j) Stocks

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

k) Deferred taxation

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

l) Translation of foreign currencies

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

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

m) Related parties

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

n) Provision for dry-docking expenses

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

o) Construction contracts

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

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

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

p) Impairment

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

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

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

q) Retirement benefits scheme costs

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

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

r) Cash equivalents

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

4 SEGMENTAL INFORMATION

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

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

(a) investment in construction, equipment rental and services income;

(b) investment in trading business;

(c) investment in retail business;

(d) investment in internet business; and

(e) income derived from investment holding including listed securities trading.

(a) Business segments

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

Group

30th September, 2002

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

Group

30th September, 2001

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

(b) Geographical segments

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

30th September, 2002

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

30th September, 2001

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

5 TURNOVER AND OTHER REVENUE

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

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

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

6 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

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

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

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

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

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

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

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

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

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

7 LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

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

8 FINANCE COSTS

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

9 TAXATION

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

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

10 LOSS PER SHARE

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

11 DISCONTINUING OPERATIONS

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

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

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

12 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

13 SUBSIDIARY COMPANIES

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

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

Particulars of the principal subsidiary companies are as follows:

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

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

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

14 ASSOCIATED COMPANIES

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

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

15 LONG TERM INVESTMENTS

	Group		Company	
	30th September, 2002	30th September, 2001	30th September, 2002	30th September, 2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted equity investments, at fair value	—	64,124	—	37,979

16 LONG TERM RECEIVABLES

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

17 STOCKS

Group	30th September, 2002 HK$'000	30th September, 2001 HK$'000
Materials	—	16,848
Spare parts	—	2,531
Equipment	—	2,484
Finished goods	4,925	—
	4,925	21,863

18 CONTRACTS IN PROGRESS

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

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

19 DEBTORS, DEPOSITS AND PREPAYMENTS

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

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

The Group has a general credit policy of 30 days.

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

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

20 SHORT TERM INVESTMENTS

	30th September, 2002	**30th September, 2001**
Group	*HK$'000*	*HK$'000*
Listed securities, at market value – Hong Kong	230	7,150

21 CASH AND BANK BALANCES

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

22 LOANS AND OTHER OBLIGATIONS

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

23 CREDITORS AND ACCRUED CHARGES

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

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

(b) At 30th September, 2002, retention money held from subcontractors for contracts in progress amounting to HK$nil (30th September, 2001: HK$21,010,000) has been included in trade creditors.

(c) Included in creditors and accrued charges was balance due to a director amounting to HK$5,614,820 (2001: Nil). The balance is unsecured, interest-free and has no fixed terms of repayment.

24 BANK LOANS AND OTHER BORROWINGS

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

25 FINANCE LEASE OBLIGATIONS

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

26 DEFERRED TAXATION

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

27 ISSUED CAPITAL

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

Share options

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

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

28 ACCUMULATED LOSSES

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

29 RESERVES

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

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

30 ACQUISITION/DISPOSAL OF SUBSIDIARIES

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

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

	30th September, 2002 HK$'000	30th September, 2001 HK$'000
(b) **Disposal of subsidiary companies**		
Net assets disposed of:		
Fixed assets	98,810	—
Long term investments	23,308	—
Inventory and work in progress	24,067	—
Debtors, deposits and prepayments	112,315	—
Cash and bank balances	8,196	—
Creditors and accrued charges	(192,855)	—
Taxation	(1,006)	—
Deferred tax	(14,501)	—
Hire purchase and lease creditors	(2,792)	—
Long term creditors	(26,326)	—
	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	—
	(44,551)	—
Gain on disposal of subsidiary company	44,551	—
	—	—
Satisfied by:		
Cash consideration (S$1.00)	—	—
Cash flow on disposal net of cash disposed of:		
Cash and bank balances disposed of	8,196	—
	8,196	—

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

31 CASH AND CASH EQUIVALENTS

	30th September, 2002	30th September, 2001
	HK$'000	*HK$'000*
Cash at banks and in hand	4,774	13,883
Unpledged fixed deposits	—	724
	4,774	14,607

32 CONTINGENT LIABILITIES

	Group		Company	
	30th September, 2002	30th September, 2001	30th September, 2002	30th September, 2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantee facilities	—	81,722	—	153,567
Performance bonds	—	40,613	—	—
Guarantee for promissory notes	—	—	10,941	—
	—	122,335	10,941	153,567

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

33 COMMITMENTS

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

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

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

34 POST BALANCE SHEET EVENTS

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

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

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

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

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

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

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

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

35 RELATED PARTY TRANSACTIONS

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

36 LITIGATION

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

37 COMPARATIVE FIGURES

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

38 APPROVAL OF FINANCIAL STATEMENTS

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

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

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

Condensed Consolidated Income Statement
For the six months ended 31st March, 2003

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

Condensed Consolidated Balance Sheet
At 31st March, 2003

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

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31st March, 2003

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

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

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

Notes to the Condensed Financial Statements
For the six months ended 31st March, 2003

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Employee Benefits

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

3. SEGMENTAL INFORMATION

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

Business segments
Six months ended 31st March, 2003

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

Six months ended 31st March, 2002

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

Geographical segments

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

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

Notes:

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

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

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

4. LOSS FROM OPERATIONS

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

5. GAIN ON DISPOSAL OF A SUBSIDIARY

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

6. TAXATION

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

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

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

7. LOSS PER SHARE

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

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

8. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

9. TRADE AND OTHER PAYABLES

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

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

10. BANK AND OTHER BORROWINGS

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

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

11. SHARE CAPITAL

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

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

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

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

12. CAPITAL COMMITMENTS

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

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

13. LITIGATION

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

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

14. PLEDGE OF ASSETS

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

15. POST BALANCE SHEET EVENTS

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

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

(b) On 20th May, 2003, the Company entered into a conditional placing agreement with an independent placing agent, in relation to the placing of 298,000,000 new shares of HK$0.01 each in the Company, on a best effort basis, at a placing price of HK$0.0671 per share, amounting to a total consideration of approximately HK$20 million.

(c) The Capital Reorganisation of the Company as detailed in note 11 was effective on 2nd June, 2003.

Except for (c), the above transactions have not been completed up to the date of this report.

5. INDEBTEDNESS STATEMENT

Borrowings

At the close of business on 30th April, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$94,697,000, representing secured bank borrowings of approximately HK$1,040,000 (secured by certain property, plant and equipment of the Group), other borrowings of approximately HK$83,327,000, promissory notes in an aggregate amount of approximately HK$10,263,000 and obligations under finance leases of approximately HK$67,000.

Debt securities

At the close of business on 30th April, 2003, the Group had no debt securities.

Securities and guarantees

At the close of business on 30th April, 2003, the Group's banking facilities were secured by the Group's property, plant and equipment with a net book value of approximately HK$2.3 million.

Contingent liabilities

At the close of business on 30th April, 2003, the Group had no contingent liabilities.

Capital commitments

At the close of business on 30th April, 2003, the Group had no capital commitments.

Disclaimer

Save as aforesaid in this indebtedness statement and apart from intra-group liabilities and the litigation as set out under the section headed "Material litigation" in Appendix II to this circular, the Group did not have, at the close of business on 30th April, 2003, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees, or other material contingent liabilities.

Foreign currencies amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 30th April, 2003.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities position of the Group since 30th April, 2003 and up to the Latest Practicable Date.

6. MATERIAL CHANGE

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

7. THE STATEMENT OF UNAUDITED PROFORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of the unaudited proforma adjusted consolidated net tangible assets of the Group is based on the audited consolidated net liabilities of the Group as at 30th September, 2002 and adjusted as described below:

	HK$'000
Audited consolidated net liabilities value of the Group as at 30th September, 2002	(95,204)
Unaudited consolidated interim results of the Group for the six months ended 31st March, 2003	(1,400)
Less: Goodwill as at 31st March, 2003	(6,440)
Proforma adjusted consolidated net liabilities value of the Group immediately prior to Subscription Completion, Placing Completion and completion of the Deed of Settlement	(103,044)
Estimated net proceeds from the Subscription	70,000
Estimated net proceeds from the Placing (on the assumption that all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement)	19,500
Estimated gain arising from completion of the Deed of Settlement *(Note)*	32,400
Proforma adjusted consolidated net tangible asset value of the Group immediately following Subscription Completion, Placing Completion and completion of the Deed of Settlement	18,856
Proforma adjusted consolidated net liabilities value per Share immediately prior to Subscription Completion, Placing Completion and completion of the Deed of Settlement based on 149,064,233 Shares in issue as at the Latest Practicable Date	(69.1) cents
Proforma adjusted consolidated net tangible asset value per Share immediately following Subscription Completion, Placing Completion and completion of the Deed of Settlement based on 1,490,264,233 Shares in issue upon Subscription Completion and Placing Completion	1.3 cents

Note: The estimated gain is calculated based on the fact that the Group is only required to pay the Settlement Sum of HK$20 million to settle the Indebtedness which amounted to approximately HK$52.4 million as at 31st March, 2003.

1. RESPONSIBILITY STATEMENT

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

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

The directors of Ontime Group Ltd., which is the corporate director of Spring Wise Investments Ltd., jointly and severally accept full responsibility for the accuracy of the information relating to Spring Wise Investments Ltd. and its associates contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular relating to Spring Wise Investments Ltd. and its associates have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement relating to Spring Wise Investments Ltd. and its associates in this circular misleading.

The sole director of Leader Assets Ltd. accepts full responsibility for the accuracy of the information relating to Leader Assets Ltd. and its associates contained in this circular and confirms having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular relating to Leader Assets Ltd. and its associates have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement relating to Leader Assets Ltd. and its associates in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following Subscription Completion and Placing Completion are as follows:

Authorised:		*HK$*
160,000,000,000	Shares	1,600,000,000
Issued and fully paid or credited as fully paid:		
149,064,233	Shares in issue as at the Latest Practicable Date	1,490,642
1,043,200,000	Shares to be issued upon Subscription Completion	10,432,000
298,000,000	Maximum number of Shares to be issued upon Placing Completion	2,980,000
1,490,264,233		14,902,642

All of the Shares in issue rank pari passu, in all respects with each other, including in particular, rights as to dividends, voting and capital. As at the Latest Practicable Date, the Company did not have outstanding options, warrants and convertibles.

Since 30th September, 2002 and up to the Latest Practicable Date, the Company had not issued any new Previous Shares or Shares.

The Subscription Shares, when fully paid, will rank pari passu in all respects with all Shares in issue or to be issued on or prior to the date of Subscription Completion. The Placing Shares, when fully paid, will rank pari passu in all respects with all Shares in issue or to be issued on or prior to the date of Placing Completion. The Subscription Shares and the Placing Shares will not be subject to any lock-up or restriction on disposal requirements.

The Shares in issue are listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. MARKET PRICE

The table below shows the closing prices (as adjusted for the effect of the Capital Reorganisation, if necessary) of the Previous Shares or the Shares (as the case may be) as quoted on the Stock Exchange on (i) 2nd May, 2003, being the last trading day prior to suspension of trading in the Previous Shares on the Stock Exchange pending the issue of the Announcement; (ii) the last trading day of the Previous Shares in each of the six calendar months immediately preceding the date of the Announcement; and (iii) the Latest Practicable Date:

	HK$ (per Share)
29th November, 2002	0.150
31st December, 2002	0.100
28th January, 2003	0.120
28th February, 2003	0.130
31st March, 2003	0.100
30th April, 2003	0.110
2nd May, 2003	0.110
Latest Practicable Date	0.115

The highest and lowest closing market prices (as adjusted for the effect of the Capital Reorganisation, if necessary) of the Previous Shares or the Shares (as the case may be) recorded on the Stock Exchange between 20th November, 2002 (being the date which was six months preceding the date of the Announcement) and the Latest Practicable Date were HK$0.210 per Share on 22nd May, 2003 and HK$0.100 per Share on (i) the trading days during 27th December, 2002 and 31st December, 2002; (ii) 20th January, 2003; (iii) 21st January, 2003; (iv) 27th January, 2003; (v) 4th February, 2003; (vi) the trading days during 13th March, 2003 and 3rd April, 2003; and (vii) 5th June, 2003 respectively.

4. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, save for the 700,000 shares of HK$1.00 each in the capital of Marcells (Tax Free) International Department Store Limited, a subsidiary of the Company, held by Mr. Lam Siu Sek, an executive Director, representing 35% of the issued share capital of Marcells (Tax Free) International Department Store Limited, none of the Directors had or were deemed to have any interests in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions in which they have taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required to be disclosed pursuant to the Takeovers Code, 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

Save as disclosed below, as at the Latest Practicable Date, so far as is known to the Directors, no other person had, or was deemed or taken to have an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Number of Shares	Approximate percentage of existing issued share capital of the Company
Cyber Best Trading Limited	45,187,069	30.31%
Lin Che Chu	45,187,069 *(Note 1)*	30.31%

Note 1: Mr. Lin Che Chu is deemed to be interested in these Shares through his interest in Cyber Best Trading Limited which is a company wholly and beneficially owned by Mr. Lin Che Chu.

(c) Substantial shareholders of other members of the Group

Save as disclosed in (a) above, as at the Latest Practicable Date, so far as is 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 has or has had any interest, direct or indirect, in any assets which since 30th September, 2002, the date to which the latest published audited financial statements of the Company were made up, have been acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.

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

5. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SHARES

(1) As at the Latest Practicable Date, the Company did not have any interest in shares of the Subscribers, and had no dealings in shares of the Subscribers during the period (the "Relevant Period") beginning six months prior to 20th May, 2003 (being the date of the Announcement) and ending on the Latest Practicable Date;

(2) None of the Directors had dealt for value in the Shares during the Relevant Period;

(3) As at the Latest Practicable Date, none of the Directors nor EYCFL had any shareholding in the Subscribers and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Subscribers;

(4) There were no dealings in the shares of the Subscribers by the Directors during the Relevant Period;

(5) As at the Latest Practicable Date, none of (i) the subsidiary of the Company, (ii) the pension fund of the Company or of its subsidiary, nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code), had any interest in the Shares and no Shares were managed on a discretionary basis by fund managers connected with the Company as at the Latest Practicable Date;

(6) Save for the Subscription Agreement, as at the Latest Practicable Date, none of the directors of the Subscribers had any interest in the Shares;

(7) Save for the Subscription Agreement, as at the Latest Practicable Date, none of the Subscribers nor parties acting in concert with any of them had any interest in the Shares;

(8) Save for the Subscription Agreement, there were no dealings in the Shares by the Subscribers and parties acting in concert with them during the Relevant Period;

(9) Save for the Subscription Agreement, there were no dealings in the Shares by the directors of the Subscribers during the Relevant Period;

(10) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code or the Subscribers or with any person acting in concert with any of them in respect of the securities of the Company, which may be an inducement to deal or refrain from dealing during the Relevant Period;

(11) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between (i) the Subscribers or any party acting in concert with them; and (ii) any Director, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription Completion;

(12) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between any of the Directors and any other person which is conditional on the Subscription Completion or otherwise connected with the Subscription; and

(13) As at the Latest Practicable Date, no person had irrevocably committed themselves to vote for or against the resolution to be proposed at the EGM to approve the Subscription.

6. MATERIAL LITIGATION

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

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

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into any service contract with the Company or its subsidiaries or associated companies which have more than 12 months to run after the Latest Practicable Date. In addition, no director's service contract had been entered into or amended within 6 months prior to the date of the Announcement.

8. CONSENT

EYCFL has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter of advice and references to its name in the form and context in which they appear. Tai Fook Capital Limited has given and has not withdrawn its consent to the issue of this circular with the references to its name in the form and context in which they appear.

9. QUALIFICATION OF EXPERT

The following is the qualification of the professional adviser who has given advice which is contained in this circular:

Name	Qualification
EYCFL	a deemed licensed corporation under the SFO

10. DISCLOSURE OF INTERESTS OF ADVISERS

(1) Each of EYCFL and Tai Fook Capital Limited does not have any shareholding in any member of the Group or any right or option to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(2) Each of EYCFL and Tai Fook Capital Limited does not have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 30th September, 2002, the date to which the latest published audited consolidated accounts of the Group were made up.

11. MATERIAL CONTRACTS

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

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

(2) the debt restructuring agreement dated 21st August, 2002 entered into between the Company, CSH and Grand Orient and as announced by the Company on 23rd August, 2002 whereby (i) CSH had granted a new loan facility to the Company of an amount up to approximately HK$48.6 million; and (ii) Grand Orient had granted indulgence to the Company in respect of the repayment of all indebtedness and sums which were then or at any time due and payable by the Company to Grand Orient;

(3) a call option agreement dated 9th January, 2003 entered into between Sum Cheong Corporation Pte Ltd., Favour Smart Limited and C&P China Pte Ltd. pursuant to which Favour Smart Limited, in consideration of the payment of the call option fee of US$415,000 (or equivalent to approximately HK$3.2 million) paid by C&P China Pte Ltd., has conditionally agreed to grant to C&P China Pte Ltd. a call option to acquire all 100,000 issued shares of CP-Sum Cheong (China) Pte Ltd. from Favour Smart Limited upon the terms and conditions contained in the call option agreement;

(4) the Placing Agreement as supplemented by a supplemental agreement dated 10th June, 2003 between the parties thereto (which amended the long-stop date of the Placing Agreement from 15th July, 2003 to 15th August, 2003); and

(5) the Subscription Agreement as supplemented by a supplemental agreement dated 10th June, 2003 between the parties thereto (which amended the long-stop date of the Subscription Agreement from 15th July, 2003 to 15th August, 2003).

12. MISCELLANEOUS

(1) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Subscribers and any other persons for the transfer of the beneficial interests in the Subscription Shares to be acquired by the Subscribers under the Subscription Agreement.

(2) The company secretary of the Company is Ms. Chan Yan Yan, Jenny, who is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrator in the United Kingdom.

(3) The registered office of the Company is at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(4) The share registrars of the Company in Hong Kong is Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

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

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays and public holidays) at the registered office of the Company at 8th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the year ended 30th September, 2002 and for the fifteen months ended 30th September, 2001;

(c) the interim report of the Company for the six months ended 31st March, 2003;

(d) the letter of advice from EYCFL to the Independent Board Committee, the text of which is set out on pages 26 to 40 of this circular;

(e) the letter of recommendations from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 25 of this circular;

(f) the letters of consent from EYCFL and Tai Fook Capital Limited referred to in paragraph 8 of this Appendix; and

(g) the material contracts referred to in paragraph 11 of this Appendix.

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide all the information in relation to the Repurchase Mandate for your consideration and also constitutes the Memorandum required under section 49BA of the Companies Ordinance.

I. LISTING RULES RELATING TO THE REPURCHASES OF SECURITIES

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions. The Company is empowered by its memorandum and articles of association to repurchase its own securities.

II. REASON FOR REPURCHASE

The Directors consider that it is in the interest of the Company and the Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase the Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

III. SHARE CAPITAL

It is proposed that up to 10% of the issued share capital of the Company in issue immediately following Subscription Completion and Placing Completion may be repurchased. As at the Latest Practicable Date, the issued share capital of the Company comprised 149,064,233 Shares. Upon Subscription Completion and Placing Completion and assuming all the 298,000,000 new Shares are successfully placed pursuant to the Placing Agreement, the issued share capital of the Company would comprise 1,490,264,233 Shares. On such basis and assuming no further new Shares are issued or repurchased after the Latest Practicable Date and up to the date of the EGM, the Directors would be authorised to repurchase up to a limit of 149,026,423 Shares.

IV. FUNDING OF REPURCHASE

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws of Hong Kong.

It is envisaged that the funds required for any repurchase would be derived from the capital paid up on the Shares being repurchased and from the distributable profits of the Company.

The Directors do not intend to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital of the Company or the gearing level as compared with the position disclosed in its most recent published audited accounts as at 30th September, 2002.

V. SHARE PRICES

The highest and lowest prices (as adjusted for the effect of the Capital Reorganisation, if necessary) at which the Previous Shares or the Shares (as the case may be) have been traded on the Stock Exchange during each of the previous twelve months preceding the Latest Practicable Date were as follows:

	per Share	
	Highest	**Lowest**
	HK$	*HK$*
2002		
June	0.50	0.32
July	0.51	0.14
August	0.20	0.12
September	0.20	0.11
October	0.24	0.11
November	0.16	0.10
December	0.15	0.10
2003		
January	0.15	0.10
February	0.18	0.10
March	0.13	0.10
April	0.15	0.15
May	0.26	0.10
June (up to the Latest Practicable Date)	0.16	0.10

VI. SHARES REPURCHASES MADE BY THE COMPANY

Neither the Company nor any of its subsidiaries had purchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

VII. GENERAL

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

The Directors do not intend to exercise the Repurchase Mandate to such extent as would cause the percentage of the issued share capital of the Company being held by the public to fall below the minimum percentage prescribed under the Listing Rules.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition of voting rights for the purposes of the Takeovers Code. As at the Latest Practicable Date, the Directors were not aware of any Takeovers Code implications arising from the exercise of the power to repurchase the Shares in accordance with the terms of the Repurchase Mandate.

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

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell any Shares to the Company nor has any such connected person undertaken not to sell any of the Shares held by him to the Company in the event that the Repurchase Mandate is approved by the Shareholders.

CHINA DEVELOPMENT CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the members of China Development Corporation Limited (the "**Company**") will be held at 11th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Monday, 21st July, 2003 at 3:00 p.m. for the purpose of considering and, if thought fit, the following resolutions which will be proposed as ordinary resolutions of the Company.

ORDINARY RESOLUTIONS

1. **"THAT:**

(a) the execution of the conditional agreement dated 20th May, 2003 (the "**Subscription Agreement**"), a copy of which has been produced to the meeting and marked "A" and initialled by the Chairman of the meeting for the purpose of identification, made between Silver Rich Macau Development Limited ("**Silver Rich**"), Spring Wise Investments Ltd. ("**Spring Wise**"), Leader Assets Ltd. ("**Leader Assets**", together with Silver Rich and Spring Wise, collectively the "**Subscribers**") and the Company, pursuant to which the Company has agreed to allot and issue an aggregate of 1,043,200,000 shares (the "**Subscription Shares**") of HK$0.01 each in the capital of the Company to the Subscribers at HK$0.0671 per Subscription Share be and it is hereby ratified, confirmed and approved;

(b) the directors of the Company be and they are hereby authorised to issue the Subscription Shares to the Subscribers pursuant to the Subscription Agreement; and

(c) any one director of the Company (where execution under seal is required, any two directors of the Company) be and is (are) hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him (them) to be incidental to, ancillary to or in connection with the matters contemplated under the Subscription Agreement."

2. **"THAT:**

(a) the execution of the conditional agreement dated 20th May, 2003 (the "**Placing Agreement**"), a copy of which has been produced to the meeting and marked "B" and initialled by the Chairman of the meeting for the purpose of identification, made between Tai Fook Securities Company Limited ("**Tai Fook**") and the Company, pursuant to which Tai Fook shall, as agent for the Company and on a best-efforts basis, procure subscribers for an aggregate of 298,000,000 shares (the "**Placing Shares**") of HK$0.01 each in the capital of the Company at HK$0.0671 per Placing Share be and it is hereby ratified, confirmed and approved;

(b) the directors of the Company be and they are hereby authorised to issue the Placing Shares pursuant to the Placing Agreement; and

(c) any one director of the Company (where execution under seal is required, any two directors of the Company) be and is (are) hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him (them) to be incidental to, ancillary to or in connection with the matters contemplated under the Placing Agreement."

3. **"THAT** subject to the passing of resolution no. 1 as set out in the notice (the "**Notice**") convening the extraordinary general meeting at which this resolution is proposed, the grant of a waiver in respect of the obligation of the Subscribers (as defined in resolution no. 1 as set out in the Notice) and the parties acting in concert with them (if any) to make a mandatory general offer to the shareholders of the Company in respect of the issued shares of the Company not already owned or agreed to be acquired by the Subscribers or any parties acting in concert with them (if any) under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of completion of the Subscription Agreement (as defined in resolution no. 1 as set out in the Notice) be and it is hereby approved."

4. **"THAT:**

(a) conditional upon completion of the Subscription Agreement and Placing Agreement and subject to sub-paragraph (c) below, pursuant to Section 57B of the Companies Ordinance, the exercise by the directors of the Company during the Relevant Period (as hereafter defined) of all powers of the Company to allot, issue and deal with additional Shares or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements and options (including warrants, bonds, debentures, options or other securities which carry rights to subscribe for or are convertible into the Shares) which might require the exercise of such power, be and is hereby generally and unconditionally approved;

(b) the approval in sub-paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, options or other securities which carry rights to subscribe for or are convertible into the Shares) which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in sub-paragraph (a) and (b) above, otherwise than pursuant to (i) Rights Issue (as hereafter defined); or (ii) the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, options or other securities, which carry rights to subscribe for or are convertible into the Shares; or (iii) the exercise of options granted under any share option scheme adopted by the Company, shall not in aggregate exceed 20 per cent. of the nominal amount of the share capital of the Company in issue as at the date of the passing of the resolution, as enlarged by the allotment and issue of the Shares upon completion of the Subscription Agreement and Placing Agreement and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from immediately after completion of the Subscription Agreement and Placing Agreement until whichever is the earliest of:

(aa) the conclusion of the next annual general meeting of the Company;

(bb) the expiration of the period within the next annual general meeting of the Company is required by the law or the articles of association of the Company to be held; and

(cc) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means the allotment, issue or grant of shares pursuant to an offer made to the shareholders of the Company, excluding for that purpose any shareholder who is resident in a place where such offer is not permitted or is impracticable under the law of that place, and, where appropriate, to holders of other equity securities for the time being in issue (if any) entitled to be offered them pro rata (apart from fractional entitlements) to their then holdings of the Shares (or such other equity securities)."

5. **"THAT:**

(a) conditional upon completion of the Subscription Agreement and the Placing Agreement, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase the Shares be and is hereby generally and unconditionally approved;

(b) the total nominal amount of the Shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue as at the date of the passing of the resolution, as enlarged by the allotment and issue of the Shares upon the completion of the Subscription Agreement and the Placing Agreement and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution:

"Relevant Period" means the period from immediately after completion of the Subscription Agreement and the Placing Agreement until whichever is the earliest of:

(aa) the conclusion of the next annual general meeting of the Company;

(bb) the expiration of the period within which the next annual general meeting of the Company is required by the law or the articles of association of the Company to be held; and (cc) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

6. **"THAT** conditional upon completion of the Subscription Agreement and the Placing Agreement, the general mandate granted to the directors of the Company to allot, issue and deal with additional Shares pursuant to the resolution no. 4 as set out in the Notice be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted pursuant to the such general mandate the aggregate nominal amount of share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution no. 5 as set out in the Notice, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of the resolution, as enlarged by the allotment and issue of the Shares upon completion of the Subscription Agreement and the Placing Agreement."

By Order of the Board
China Development Corporation Limited
Kwok Ka Lap, Alva
Executive Director

Hong Kong, 2nd July, 2003

Registered office:
8th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed.

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 lodged with the Company's branch registrars, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Pursuant to Rule 2.9 of the Hong Kong Code on Takeovers and Mergers, the Ordinary Resolution No. 3 will be determined by way of poll.

5. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. Where there are joint holders of any share, anyone of such holders may vote at the meeting either personally or by proxy in respect of such share as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.