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

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

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WING ON TRAVEL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 1189)

THE ISSUE OF HK\$260 MILLION CONVERTIBLE NOTES CONNECTED TRANSACTION APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

**Financial adviser to
China Enterprises Limited**



Independent financial adviser to the independent Shareholders



MasterLink Securities (Hong Kong) Corporation Limited

A letter from MasterLink Securities (Hong Kong) Corporation Limited containing its advice to the independent Shareholders of Wing On Travel (Holdings) Limited is set out on pages 24 to 37 of this circular.

A notice convening a special general meeting of Wing On Travel (Holdings) Limited to be held at 8th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Tuesday, 8 June 2004 at 10:00 a.m. is set out on pages 143 to 144 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not they are able to attend the special general meeting in person and vote at such meeting, Shareholders are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and return it to the head office and principal place of business of Wing On Travel (Holdings) Limited at 7th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the special general meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjourned meeting if they so wish.

24 May 2004

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EXPECTED TIMETABLE

2004

Latest time for lodging forms of proxy for the SGM 10:00 a.m. on Sunday, 6 June
SGM 10:00 a.m. on Tuesday, 8 June
Publication of the announcement of results of the SGM Wednesday, 9 June

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the content requires otherwise.

“2002 CN”	the four 2% convertible notes due 2004 issued with an aggregate principal amount of HK\$370,000,000 to each of CEL, HIL, CSIL and SWHL by the Company on 19 April 2002 which entitled the holders thereof to convert into new Shares at HK\$0.032 per Share, subject to adjustments, at any time up to and including their respective maturity dates, i.e. 19 April 2004. Details of the 2002 CN were stated in the Company’s circular dated 25 March 2002
“Announcement”	the announcement made by the Company dated 17 March 2004 in relation to, among other things, the Issue
“Apex”	Apex Quality Group Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to approximately 67.9% by the Company
“Apex Offer”	the unconditional voluntary offer to acquire all the shares of Apex not already held by Millennium Target Holdings Limited, an indirect wholly-owned subsidiary of the Company, and its Concert Parties. Details of this offer (which was closed on 9 January 2004) were included in the circular of the Company dated 31 October 2003
“Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CEL”	China Enterprises Limited, a company incorporated in Bermuda with limited liability, the shares of which are traded on the OTC Bulletin Board in the United States of America and is owned as to approximately 55.2% effective equity interest and approximately 88.8% effective voting interest by China Strategic
“CEL Convertible Note”	the convertible note to be issued by the Company to CEL or its nominee(s) with a principal amount of HK\$155,000,000, which entitles the holder thereof to convert into Shares at any time from the date of issue of the convertible note up to the maturity date of the convertible note at an initial conversion price of HK\$0.020 per Share (subject to adjustments)
“China Strategic”	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board
“CKH”	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board

DEFINITIONS

“CN Agreements”	the conditional agreements dated 13 January 2004 (as subsequently amended on 17 March 2004 and further amended by the Supplemental Agreements) entered into between the Company and each of CEL and HIL relating to the issuance of the Convertible Notes to CEL, HIL or their respective nominee(s) respectively, subject to the respective terms and conditions contained therein
“CN Subscribers”	CEL and HIL
“Company”	Wing On Travel (Holdings) Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board
“Completion”	completion of the CN Agreements
“Concert Party/ Concert Parties”	has the meaning ascribed thereto under the Takeovers Code
“Convertible Notes”	the CEL Convertible Note and the HIL Convertible Note
“CSIL”	Capital Strategic Investment Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board
“Director(s)”	director(s) of the Company
“Dr. Chan”	Dr. Chan Kwok Keung, Charles, an executive Director
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“HIL”	Hutchison International Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HWL, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board
“HIL Convertible Note”	the convertible note to be issued by the Company to HIL or its nominee(s) with a principal amount of HK\$105,000,000, which entitles the holder thereof to convert into Shares at any time from the date of issue of the convertible note up to the maturity date of the convertible note at an initial conversion price of HK\$0.020 per Share (subject to adjustments)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hounslow”	Hounslow Limited, a company incorporated in the British Virgin Islands with limited liability

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“HWL”	Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board
“Independent Third Party”	a person or company which is not connected with the directors, chief executives and substantial shareholders of the Company, any of its subsidiaries or their respective Associates
“Issue”	the issue of the Convertible Notes to each of CEL and HIL or their respective nominee(s) under the respective terms of the CN Agreements
“Latest Practicable Date”	20 May 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange, which remained effective up to and including 30 March 2004, by which the transactions under the CN Agreements are governed since the CN Agreements (other than the Supplemental Agreements) were entered into before 30 March 2004
“Long Stop Date”	the long stop date for the fulfilment and waiver of conditions precedent set out in the respective CN Agreements
“Main Board”	the Main Board of the Stock Exchange
“MasterLink”	MasterLink Securities (Hong Kong) Corporation Limited, a deemed licensed corporation to carry out types 1, 4, 6 and 9 regulated activities under the SFO and the independent financial adviser to the independent Shareholders regarding the Issue and the Whitewash Waiver
“Other 2002 CN Holders”	the then holders of the 2002 CN (other than CEL and HIL), being CSIL and SWHL
“SFC”	The Securities and Futures Commission in Hong Kong
“SGM”	a special general meeting of the Company to be convened to approve, among other things, the CN Agreements (including the CEL Convertible Note and the HIL Convertible Note) and Whitewash Waiver
“SFO”	Securities and Futures Ordinance
“Share(s)”	ordinary share(s) of par value HK\$0.01 each in the capital of the Company

DEFINITIONS

“Shareholder(s)”	shareholder(s) of the Company
“Supplemental Agreements”	the supplemental agreements dated 4 May 2004 entered into between the Company and each of CEL and HIL relating to the extension of the Long Stop Date, by which (i) CEL has agreed to extend the time for the repayment of the outstanding principal amount of its 2002 CN to Completion or 14 June 2004, whichever is earlier; and (ii) the Company acknowledged that HIL has the right to demand repayment of the outstanding principal of its 2002 CN at any time after the maturity date of the 2002 CN which fell on 19 April 2004
“Softbank”	Softbank Investment International (Strategic) Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SWHL”	Sinolink Worldwide Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Whitewash Waiver”	a waiver by the Executive from the obligation on the part of CEL, HIL and their respective Concert Parties to make a general offer for the Shares under the Takeovers Code pursuant to Note 1 to Notes on dispensations from Rule 26 of the Takeovers Code upon exercise of all (or relevant part) of the conversion rights attaching to the CEL Convertible Note and the HIL Convertible Note at any time during the term of these Convertible Notes
“HK\$”	Hong Kong dollar(s), the lawful currency in Hong Kong

LETTER FROM THE BOARD



WING ON TRAVEL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:

Mr. Yu Kam Kee, Lawrence *M.B.E., J.P. (Chairman)*
Mr. Cheung Hon Kit *(Managing Director)*
Dr. Chan Kwok Keung, Charles
Dr. Yap, Allan
Mr. Chan Pak Cheung, Natalis
Mr. Lui Siu Tsuen, Richard
Ms. Luk Yee Lin, Ellen

Non-Executive Directors:

Mr. Chan Yeuk Wai *(Honorary Chairman)*
Mr. Fok Kin-ning, Canning
Ms. Shih, Edith *(alternate to Mr. Fok Kin-ning, Canning)*

Independent Non-Executive Directors:

Mr. Lai Hing Chiu, Dominic
Mr. Kwok Ka Lap, Alva

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head Office and Principal
Place of Business:*

7th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

24 May 2004

*To the Shareholders and for information only,
to the holders of the 2002 CN*

Dear Sir or Madam,

THE ISSUE OF HK\$260 MILLION CONVERTIBLE NOTES CONNECTED TRANSACTION APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER

INTRODUCTION

The Directors announced in the Announcement that on 13 January 2004, the Company entered into the CN Agreements (as subsequently amended on 17 March 2004 and further amended by the Supplemental Agreements) with each of CEL and HIL in relation to the issuance of the Convertible Notes by the Company to each of CEL and HIL or their respective nominees for a consideration of HK\$155,000,000 and HK\$105,000,000 respectively. Completion is conditional upon the fulfilment or waiver of the conditions set out in the sections headed "Conditions" below.

As announced on 7 April 2004, each of CEL and HIL had agreed that the Long Stop Date be extended from 31 March 2004 (as originally stated in the respective CN Agreements) to 19 April 2004.

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Subsequently, on 4 May 2004, (i) the Company and (ii) each of HIL and CEL respectively entered into the Supplemental Agreements, whereby the parties confirmed and agreed, inter alia, to extend the Long Stop Date for the fulfilment and waiver of the conditions precedent set out in the respective CN Agreements to 14 June 2004.

Upon full conversion of all the Convertible Notes issued under the CN Agreements, a total of 13,000,000,000 new Shares will be issued at an initial conversion price of HK\$0.020 per Share, subject to adjustments, which represent approximately 70.97% of the existing issued share capital of the Company and approximately 41.51% of the issued share capital of the Company as enlarged by the new Shares to be issued upon full conversion of the Convertible Notes.

CEL is a substantial Shareholder having approximately 32.21% interest in the Company and accordingly, CEL is a connected person of the Company under the Listing Rules. The entering into of the CN Agreement with CEL constitutes a connected transaction for the Company. Accordingly, the issue of the Convertible Notes to CEL and HIL is subject to, among other things which are disclosed under the paragraphs headed “Conditions” to this letter, the approval of disinterested Shareholders (other than CEL, HIL, Other 2002 CN Holders and their respective Associates) and the approval of the Whitewash Waiver by the independent Shareholders (other than CEL, HIL and their respective Concert Parties) at the SGM.

Upon full conversion of the CEL Convertible Note and the HIL Convertible Note at the initial conversion price of HK\$0.020 per share, CEL, HIL and their respective Concert Parties will be interested in an aggregate of 18,917,280,000 Shares, representing about 60.41% of the issued share capital of the Company as enlarged by the Shares to be issued upon full conversion of all the Convertible Notes.

Under Rule 26 of the Takeovers Code, upon exercise of all (or relevant part) of the conversion rights attaching to the CEL Convertible Note and the HIL Convertible Note, CEL, HIL and their respective Concert Parties during the term of the Convertible Notes are obliged to make a mandatory unconditional general offer for all the issued Shares not already owned or agreed to be acquired by them. An application has been made by CEL, HIL and their respective Concert Parties to the Executive for the Whitewash Waiver. The Executive has agreed, subject to approval by the independent Shareholders by way of a poll, to waive such obligation to make a general offer which may result from the exercise of the conversion rights attaching to the CEL Convertible Note and the HIL Convertible Note. Completion of the CN Agreements is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive. If the condition of granting the Whitewash Waiver is not fulfilled or waived by CEL and HIL, the CN Agreements will lapse.

As the maximum potential holding of voting rights of CEL, HIL and their respective Concert Parties resulting from the full conversion of the CEL Convertible Note and the HIL Convertible Note will exceed 50% of the voting rights of the Company, CEL, HIL and their respective Concert Parties may thereafter increase their holding without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

Dr. Chan, an executive Director, as at the Latest Practicable Date, was deemed to be interested in approximately 29.4% of the issued share capital of China Strategic which in turn had an effective equity interest of approximately 55.2% and an effective voting interest of approximately 88.8% in CEL. CEL, through its wholly-owned subsidiary, Million Good Limited, is a holder of the 2002 CN and a subscriber of the Convertible Notes. Mr. Cheung Hon Kit, the Managing Director of the Company, is an executive director of Paul Y. - ITC Construction Holdings Limited (“Paul Y.”), and a non-executive director of Hanny Holdings Limited (“Hanny”). Paul Y. and Hanny, as at the Latest Practicable Date, were interested in approximately 29.4% and 29.4% of the issued share capital of China Strategic respectively. Dr. Yap, Allan, an executive Director, is a vice chairman of CEL and China Strategic and the managing director of Hanny. Mr. Lui Siu Tsuen, Richard, an executive Director, is the deputy managing director of Hanny and an alternate director to Dr. Yap, Allan in China Strategic. Both Dr. Chan and Mr. Lui Siu Tsuen, Richard have involved in the negotiations and discussions of the Issue. Ms. Luk Yee Lin, Ellen, an executive

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Director, and Mr. Chan Yeuk Wai, a non-executive Director and the Honorary Chairman of the Company, are salaried employees of the Group. Mr. Fok Kin-ning, Canning, a non-executive Director, and Ms. Shih, Edith (alternate to Mr. Fok Kin-ning, Canning) are directors of HIL which is a holder of the 2002 CN and a subscriber of the Convertible Notes. Mr. Lai Hing Chiu, Dominic, an independent non-executive Director, is a senior partner of Messrs. Iu, Lai & Li who are the legal advisers to the Company in relation to the Issue and the granting of the Whitewash Waiver. Mr. Yu Kam Kee, Lawrence, the Chairman of the Company and an executive Director, is not a salaried employee of the Group. He is the chairman of Softbank, which held approximately 5.4% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Chan Pak Cheung, Natalis, an executive Director, is not a salaried employee of the Group. He was and is still an executive director and the deputy chairman of Star East Holdings Limited (now known as SMI Corporation Limited) which was an associated company of ITC Corporation Limited ("ITC") until 19 December 2003. Dr. Chan is the controlling shareholder of ITC, which is the holding company of Paul Y.. Hanny is an associated company of ITC but is not controlled by ITC for the purposes of the Listing Rules and the Takeovers Code. Mr. Kwok Ka Lap, Alva, an independent non-executive Director, is also an independent non-executive director of Hanny and was personally interested in 3,000 shares in HWL as at the Latest Practicable Date. In this case, none of the Directors are considered to be independent in so far as the Issue and the Whitewash Waiver are concerned. As a result, MasterLink has been appointed to advise the independent Shareholders directly in respect of the Issue and the Whitewash Waiver.

The purpose of this circular is to give you further information on the CN Agreements and the Whitewash Waiver and to give you notice of the SGM at which resolutions approving the CN Agreements and the Whitewash Waiver will be sought.

THE CN AGREEMENTS

On 13 January 2004, the Company entered into the CN Agreements (as subsequently amended on 17 March 2004 and further amended by the Supplemental Agreements) with each of CEL and HIL.

1. CEL

Under the CN Agreement with CEL, the Company will issue the CEL Convertible Note to CEL or its nominee(s) for a consideration of HK\$155,000,000. The holder of the CEL Convertible Note has the right to convert the CEL Convertible Note into new Shares during a period of three years from the date of issue of the CEL Convertible Note, at an initial conversion price of HK\$0.020 per Share, subject to adjustments stated under the section headed "Principal terms of the CN Agreements" in this circular. Upon full conversion of the CEL Convertible Note at the initial conversion price, 7,750,000,000 new Shares will be issued, which represent approximately 42.31% of the existing issued share capital of the Company and approximately 24.75% of the issued share capital of the Company as enlarged by the new Shares to be issued upon full conversion of all the Convertible Notes issued under the CN Agreements.

CEL is incorporated in Bermuda with limited liability and the shares of which are traded on the OTC Bulletin Board in the United States of America. China Strategic is the controlling shareholder of CEL. As at the Latest Practicable Date, the total number of issued shares of CEL is 9,017,310, of which 3,000,000 shares are supervoting common stocks with 10 votes per share while the remaining 6,017,310 shares are ordinary common stocks with 1 vote per share. As advised by CEL, China Strategic effectively owns the entire 3,000,000 supervoting shares and 1,978,830 ordinary common shares in CEL. Therefore, China Strategic has an effective equity interest of 55.2% and voting interest of 88.8% in CEL respectively. China Strategic is ultimately held by Dr. Chan, an executive Director. Dr. Chan is the controlling shareholder of ITC, which is the holding company of Paul Y.. Hanny is an associated company of ITC but is not controlled by ITC for the purposes of the Listing Rules and the Takeovers Code. Paul Y. and Hanny each has an approximately 29.4% equity interest

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in China Strategic. Therefore, Dr. Chan is deemed to be interested in approximately 29.4% of the issued share capital of China Strategic as at the Latest Practicable Date. Dr. Chan beneficially owns 17,280,000 Shares. CEL is an investment holding company and has substantial interests in investment companies, the subsidiaries of which are principally engaged in the manufacturing and marketing of tires in the PRC and other countries abroad and the business of providing package tours, travel and other related services and hotel operation.

Save for the abovementioned and the fact that (i) Dr. Chan and Dr. Yap, Allan are directors of CEL, China Strategic and the Company; (ii) Mr. Lui Siu Tsuen, Richard is an alternate director (to Dr. Yap, Allan) of China Strategic and a Director, CEL and China Strategic do not have other relationship with the Company.

As at the Latest Practicable Date, CEL is a substantial Shareholder and beneficially owns 5,900,000,000 Shares (or approximately 32.21% interest in the Company). Accordingly, CEL is a connected person of the Company under the Listing Rules. Save for the abovementioned interest beneficially owned by CEL and Dr. Chan, China Strategic and its Associates do not hold any Shares. Moreover, as at 13 January 2004 (being the date of the CN Agreements), CEL was beneficially interested in the 2002 CN with an outstanding amount of HK\$84,800,000, which was convertible into 2,650,000,000 Shares at HK\$0.032 per Share upon full conversion (representing approximately 12.64% of the then issued share capital of the Company as enlarged by such conversion). The total consideration of the CEL Convertible Note amounted to HK\$155,000,000, of which HK\$84,800,000 will be satisfied and discharged by the delivery to the Company of the original certificate of the 2002 CN issued to CEL and the remaining balance of HK\$70,200,000 will be satisfied in cash by CEL upon Completion.

A summary of the terms of the Convertible Notes and the 2002 CN are set out in the sections headed “Principal terms of the CN Agreements” and “The 2002 CN” below.

Conditions

Completion of the CN Agreement with CEL is conditional upon:

- (i) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and CEL have no reasonable objection) listing of, and permission to deal in, the Shares to be issued upon the conversion of the CEL Convertible Note;
- (ii) the passing of all necessary resolutions, on a poll where necessary, by the Shareholders (being, where required by the Stock Exchange or the SFC, the independent Shareholders) at the SGM to approve:
 - A. the Company’s entering into the CN Agreement with CEL and performance of the transactions contemplated in the CN Agreement with CEL including the issue of the CEL Convertible Note and the issue and allotment of the conversion Shares in accordance with the CEL Convertible Note; and
 - B. the granting of the Whitewash Waiver;
- (iii) the Whitewash Waiver having been obtained and not having been revoked or amended and, where the Whitewash Waiver is subject to conditions, such conditions being reasonably acceptable to CEL and, to the extent that any such conditions are required to be fulfilled before the Whitewash Waiver becomes effective, they are so fulfilled;

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- (iv) if required, the Bermuda Monetary Authority having approved the issue and the transferability of the CEL Convertible Note and the Shares to be issued upon the conversion of the CEL Convertible Note;
- (v) the CN Agreement with HIL becoming unconditional;
- (vi) there being no event and condition which would constitute an event of default as defined in the CN Agreement with CEL;
- (vii) the warranties given by the Company in the CN Agreement with CEL remaining true and accurate in all material respects and not misleading in any material respect;
- (viii) there being no occurrences of circumstances which, in the reasonable opinion of CEL, will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of the Group, in each case, taken as a whole, since the date of the CN Agreement with CEL; and
- (ix) all necessary approvals from the relevant governmental or regulatory authorities in relation to the CN Agreement with CEL having been obtained.

Under the CN Agreement with CEL, there is no provision for CEL or the Company to waive conditions (i), (ii), (iii), (iv), (v) and (ix) above. If the conditions are not fulfilled (or, in respect of conditions (vi), (vii) and (viii) above, waived by CEL) on or before 31 March 2004 (or such later date as may be agreed between the Company and CEL), the CN Agreement with CEL shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof.

As announced on 7 April 2004, CEL has agreed that the Long Stop Date be extended from 31 March 2004 (as originally stated in the respective CN Agreements) to 19 April 2004. As further announced on 4 May 2004, pursuant to the Supplemental Agreement with CEL, the Long Stop Date was further extended to 14 June 2004.

2. HIL

Under the CN Agreement with HIL, the Company will issue the HIL Convertible Note to HIL or its nominee(s) for a consideration of HK\$105,000,000 to be satisfied by the surrender of the HIL's 2002 CN. The holder of the HIL Convertible Note has the right to convert the HIL Convertible Note into new Shares during a period of three years from the date of issue of the HIL Convertible Note, at an initial conversion price of HK\$0.020 per Share, subject to adjustments stated under the section headed "Principal terms of the CN Agreements" in this circular. Upon full conversion of the HIL Convertible Note at the initial conversion price, 5,250,000,000 new Shares will be issued, which represent approximately 28.66% of the existing issued share capital of the Company and approximately 16.76% of the issued share capital of the Company as enlarged by the new Shares to be issued upon full conversion of all the Convertible Notes issued under the CN Agreements.

HIL, a company incorporated in Hong Kong with limited liability, is a wholly-owned subsidiary of HWL and its principal activity is investment holding and activities of its principal subsidiaries include ports and related services, telecommunications, property and hotels, retail and manufacturing, energy, infrastructure, finance and investments. According to the 2003 annual report of HWL, CKH and its certain wholly-owned subsidiaries were taken to have approximately 49.97% interest in HWL.

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Each of HIL and HWL (being HIL's controlling shareholder) is an Independent Third Party. As at the Latest Practicable Date, neither HIL nor any of its Associates held any Shares. As at 13 January 2004 (being the date of the CN Agreements), HIL was a holder of the 2002 CN with an outstanding principal amount of HK\$107,824,640, which was convertible into 3,369,520,000 Shares at HK\$0.032 per Share upon full conversion (representing approximately 15.54% of the then issued share capital of the Company as enlarged by such conversion). The total consideration of HK\$105,000,000 of the HIL Convertible Note was principally determined with reference to the outstanding amount of the 2002 CN held by HIL, the entire amount of which will be satisfied by the surrender of its outstanding 2002 CN and the remaining balance of HK\$2,824,640 will be paid by the Company to HIL in cash upon Completion.

A summary of the terms of the Convertible Notes and the 2002 CN are set out in the sections headed "Principal terms of the CN Agreements" and "The 2002 CN" below.

Conditions

Completion of the CN Agreement with HIL is conditional upon:

- (i) the Listing Committee of the Stock Exchange having granted (either unconditionally or subject only to conditions to which the Company and HIL have no reasonable objection) listing of and permission to deal in, the Shares to be issued upon the conversion of the HIL Convertible Note;
- (ii) the passing of all necessary resolutions, on a poll where necessary, by the Shareholders (being, where required by the Stock Exchange or the SFC, the independent Shareholders) at the SGM to approve:
 - A. the Company's entering into the CN Agreement with HIL and performance of the transactions contemplated in the CN Agreement with HIL including the issue of the HIL Convertible Note and the issue and allotment of the conversion Shares in accordance with the HIL Convertible Note; and
 - B. the granting of the Whitewash Waiver;
- (iii) the Whitewash Waiver having been obtained and not having been revoked or amended and, where the Whitewash Waiver is subject to conditions, such conditions being reasonably acceptable to HIL and, to the extent that any such conditions are required to be fulfilled before the Whitewash Waiver becomes effective, they are so fulfilled;
- (iv) if required, the Bermuda Monetary Authority having approved the issue and the transferability of the HIL Convertible Note and the Shares to be issued upon the conversion of the HIL Convertible Note;
- (v) the CN Agreement with CEL becoming unconditional;
- (vi) there being no event and condition which would constitute an event of default as defined in the CN Agreement with HIL;
- (vii) the warranties given by the Company in the CN Agreement with HIL remaining true and accurate in all material respects and not misleading in any material respect;
- (viii) there being no occurrences of circumstances which, in the reasonable opinion of HIL, will have a material adverse effect on the financial condition, prospects, earnings, business, undertaking or assets of the Group, in each case, taken as a whole, since the date of the CN Agreement with HIL; and

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- (ix) all necessary approvals from the relevant governmental or regulatory authorities in relation to the CN Agreement with HIL having been obtained.

Under the CN Agreement with HIL, there is no provision for HIL or the Company to waive conditions (i), (ii), (iii), (iv), (v) and (ix) above. If the conditions are not fulfilled (or, in respect of conditions (vi), (vii) and (viii) above, waived by HIL) on or before 31 March 2004 (or such later date as may be agreed between the Company and HIL), the CN Agreement with HIL shall lapse and become null and void and the parties shall be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof but without prejudice to HIL's rights, claims, entitlements or benefits arising from HIL's 2002 CN or the agreement for the subscription thereof.

As announced on 7 April 2004, HIL had agreed that the Long Stop Date be extended from 31 March 2004 (as originally stated in the respective CN Agreements) to 19 April 2004. As further announced on 4 May 2004, pursuant to the Supplemental Agreement with HIL, the Long Stop Date was further extended to 14 June 2004.

Principal terms of the CN Agreements

Issuer: The Company

Conversion price and events of adjustments: HK\$0.020 per Share, subject to adjustments in certain events including share consolidation and subdivision, capitalisation issue, capital distribution, rights issue, and, if and whenever the average closing price per Share for the 20 consecutive trading days immediately preceding the first or second anniversary of the date of issue of the relevant Convertible Notes is lower than the then prevailing conversion price, such conversion price shall be immediately adjusted to such average closing price, provided that such average closing price shall not fall below HK\$0.015 (the "Minimum Closing Price"). If and whenever the Shares by reasons of any consolidation or sub-division become of a different nominal amount other than HK\$0.01 each, the Minimum Closing Price of HK\$0.015 shall be adjusted in accordance with the adjustments clauses as stipulated in the CN Agreements.

The other events giving rise to adjustments to the conversion price as set out in the Convertible Notes are summarised as follows:

(a) if the Company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share (as defined in the Convertible Notes) initially receivable for such securities is less than the greater of either the closing price per Share at the date of the announcement of the terms of issue of such securities or the conversion price in effect immediately prior to the date of the announcement of the terms of issue of such securities ("Applicable Price (a)"), then the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to the issue by the following fraction:

$$\frac{A}{B}$$

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where:

A = the number of Shares in issue immediately before the date of the issue plus the number of Shares which the total effective consideration receivable for the securities issued would purchase at Applicable Price (a); and

B = the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities, at the initial conversion or exchange rate or subscription price.

Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the business day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price;

(b) if the rights of conversion or exchange or subscription attached to any such securities as are mentioned in (a) are modified so that the total effective consideration per Share (as defined in the Convertible Notes) initially receivable for such securities shall be less than the greater of either the closing price per Share at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription or the conversion price in effect immediately prior to the date of announcement of the proposal to modify such rights of conversion or exchange or subscription (“Applicable Price (b)”), then the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to such modification by the following fraction:

$$\frac{C}{D}$$

where:

C = the number of Shares in issue immediately before the date of such modification plus the number of Shares which the total effective consideration receivable for the securities issued at the modified conversion price would purchase at Applicable Price (b); and

D = the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price.

Such adjustment shall take effect as at the date upon which such modification takes effect. However, a right of conversion or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms;

LETTER FROM THE BOARD

(c) if the Company issues wholly for cash any Shares at a price per Share which is less than the greater of either the closing price per Share at the date of the announcement of the terms of such issue or the conversion price in effect immediately prior to the date of the announcement of the terms of such issue (“Applicable Price (c)”), then the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of such announcement by the following fraction:

$$\frac{E}{F}$$

where:

E = the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at Applicable Price (c); and

F = the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued.

Such adjustment shall become effective on the date of the issue;

(d) if the Company issues Shares for the acquisition of assets at a total effective consideration per Share (as defined in the Convertible Notes) which is less than the greater of either the closing price per Share at the date of the announcement of the terms of such issue or the conversion price in effect immediately prior to the date of the announcement of the terms of such issue, then the conversion price shall be adjusted in such manner as may be determined by an approved merchant bank, such adjustment to become effective on the date of issue; and

(e) if the Company declares a distribution in specie other than an issue of Shares in lieu of a cash dividend, then the conversion price in force immediately prior to such distribution shall be adjusted by multiplying it by the following fraction:

$$\frac{G - H}{G}$$

where:

G = the average of the closing price per Share for the last twenty (20) Stock Exchange trading days on which dealings in the Shares on the Stock Exchange took place ending on the date on which the distribution is publicly announced or (failing any such announcement) next preceding the date of such distribution (“market price”); and

LETTER FROM THE BOARD

H = the fair market value on the day of such announcement or (failing such announcement) the next preceding day of such distribution, as determined in good faith by an approved merchant bank, of the portion of the distribution or of such right which is attributable to one Share;

Provided that:

- (i) if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if H meant the amount of the said market price which should properly be attributed to the value of the distribution or rights; and
- (ii) the provisions of this sub-paragraph (e) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such distribution

Interest:	2% per annum, payable every six months in arrears
Conversion right:	the Convertible Notes may be converted by the holders in whole or in part (in an amount not less than HK\$250,000 at any one time), at any time from the date of issue of the Convertible Notes until maturity
Maturity:	the Company shall, unless the Convertible Notes have previously been converted, repay the outstanding principal amount of the Convertible Notes, together with accrued interest thereon up to and including the third anniversary of the date of issue of the Convertible Notes. Neither the CN Agreements nor the Convertible Notes contain any provision for early redemption of the Convertible Notes, whether by the Company or the holder of the Convertible Notes, save that if the Company commits any event of default, the holders may request for an early redemption
Transfer:	the Convertible Notes may not be assigned or transferred to a connected person (as defined in the Listing Rules) of the Company
Listing:	No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. Application has been made to the Stock Exchange for the listing of Shares falling to be issued on exercise of the conversion rights attaching to the Convertible Notes. Shares issued upon conversion will rank pari passu in all respects with all other existing Shares outstanding at the exercise date of the conversion right and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the conversion notice

LETTER FROM THE BOARD

The initial conversion price of HK\$0.020 per Share was determined after arm's length negotiations between the Company and parties to the CN Agreements with reference to the prevailing market price of the Shares and represents:

1. a premium of about 11% over the closing price of HK\$0.018 per Share as quoted on the Stock Exchange on 13 January 2004, being the trading day immediately before trading in the Shares was suspended pending the release of the Announcement;
2. a premium of about 5% over the average closing price of approximately HK\$0.019 per Share over the 10 trading days up to and including 13 January 2004;
3. a premium of about 33% to the closing price of HK\$0.015 per Share as quoted on the Stock Exchange at the Latest Practicable Date; and
4. a discount of about 34% to the unaudited proforma adjusted consolidated net tangible asset value of the Company of HK\$0.0304 per Share as disclosed in the announcement of the Company dated 9 January 2004.

As advised by the Directors, as the Company has been loss-making since the financial year ended 31 March 2002 and the Shares have been trading below the net asset value of the Company for quite some time, the Directors believe the prevailing market price was a better indicator on the value of the Company at the time of entering into the CN Agreements.

The Minimum Closing Price adjustment mechanism on the conversion price was commercially agreed and arrived at after arm's length negotiation between each of the CN Subscribers and the Company. The inclusion of such adjustment clause in the CN Agreements was principally served to preserve both the interests of each CN Subscriber and the Company.

Upon full conversion of all the Convertible Notes issued under the CN Agreements, a total of 13,000,000,000 new Shares will be issued at an initial conversion price of HK\$0.020 per Share (or 17,333,333,333 new Shares at the Minimum Closing Price of HK\$0.015 per Share), subject to adjustments as stated above, which represent approximately 70.97% (or 94.63% at the Minimum Closing Price of HK\$0.015 per Share) of the existing issued share capital of the Company and approximately 41.51% (or 48.62% at the Minimum Closing Price of HK\$0.015 per Share) of the issued share capital of the Company as enlarged by the new Shares to be issued upon full conversion of the Convertible Notes.

The Company has undertaken to the Stock Exchange to promptly notify the latter once it is aware of any dealings in the Convertible Notes by any connected persons (as defined under the Listing Rules) of the Company.

THE 2002 CN

On 19 April 2002, the Company issued the 2002 CN, details of which were set out in the announcement of the Company dated 8 February 2002 and the circular of the Company dated 25 March 2002. The aggregate principal amount of the 2002 CN was HK\$370,000,000 with an annual interest rate of 2% and a maturity date of two years from its date of issue (i.e. 19 April 2004). The initial conversion price of the 2002 CN was HK\$0.032 (subject to adjustments). The 2002 CN was issued to four parties, which included CEL, HIL, CSIL, SWHL or their respective nominees for an amount of HK\$120,000,000, HK\$150,000,000, HK\$50,000,000 and HK\$50,000,000 respectively. SWHL is not a party to any of the CN Agreements and it had not been involved in any discussion of the terms of the CN Agreements whilst CSIL entered into a conditional agreement with the Company for the subscription of convertible notes with a principal amount of HK\$15,000,000 on 13 January 2004 but such an agreement was subsequently terminated on 17 March 2004. As at 13 January 2004 (being the date of the CN Agreements), the outstanding amount of the 2002 CN held by CEL, HIL, CSIL and SWHL or their respective nominees was HK\$84,800,000, HK\$107,824,640, HK\$11,500,000 and HK\$50,000,000 respectively.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the 2002 CN issued to SWHL had been redeemed. On 4 May 2004, the Company and each of HIL and CEL respectively entered into the Supplemental Agreements. Under the Supplemental Agreement with CEL, CEL agreed to extend the time for the repayment of the outstanding principal amount of its 2002 CN, being HK\$84,800,000 (together with interest accrued thereon), to Completion or 14 June 2004, whichever is the earlier. Under the Supplemental Agreement with HIL, the Company acknowledged that HIL has the right to demand repayment of the outstanding principal amount of its 2002 CN (being HK\$107,824,640 together with interest accrued thereon) at any time after the maturity date of the 2002 CN which fell on 19 April 2004. As at the Latest Practicable Date, the Company has not received any demand from HIL for repayment of HIL's 2002 CN. Whereas, the 2002 CN issued by the Company to CSIL has been due, the Company has approached CSIL and requested an extension of time for repayment of the 2002 CN issued to CSIL. As at the Latest Practicable Date, the Company has not received any demand from CSIL for repayment of CSIL's 2002 CN.

REASONS FOR THE ISSUE AND PROPOSED USE OF PROCEEDS

As at the Latest Practicable Date, the aggregate outstanding principal amount of the 2002 CN held by CEL, HIL and CSIL was HK\$204,124,640.

In recent years, the tourism industry in Hong Kong has been volatile. As stated in the 2003 annual report of the Company, the Group's performance was hard hit by the outbreak of severe acute respiratory syndrome in the first half of the year. The bank balances and cash of the Group as at 31 December 2003 was approximately HK\$111.7 million which is not sufficient to settle the then outstanding 2002 CN amounting to approximately HK\$254.1 million in full. Although the tourism industry has experienced some degree of recovery recently, the Directors believe the operating environment of the Group will remain challenging and it is expected that more resources will be focused in running the travel related business so as to promptly capture the opportunities arising therefrom.

In order to settle the 2002 CN held by CEL, HIL and CSIL, the Directors consider that it will be in the interest of the Company to issue the Convertible Notes so as to preserve and further strengthen the working capital of the Group.

Under the terms of the CN Agreement with HIL, the consideration for the subscription of the HIL Convertible Note will be satisfied by the surrender of the HIL's 2002 CN to the Company. As at the Latest Practicable Date, the outstanding principal amount of the 2002 CN held by HIL amounted to HK\$107,824,640. As HIL subscribed for an amount of HK\$105,000,000 under the HIL Convertible Note, the difference of HK\$2,824,640 will be paid in cash by the Company to HIL at Completion. The total consideration of the CEL Convertible Note amounted to HK\$155,000,000, of which HK\$84,800,000 will be satisfied and discharged by the delivery to the Company of the original certificate of the 2002 CN issued to CEL and the remaining balance of HK\$70,200,000 will be satisfied in cash by CEL upon Completion. The abovementioned cancellation and surrender of the 2002 CN by CEL and HIL required consent from CSIL and SWHL and the Company has obtained such consents from CSIL and SWHL. Upon Completion and after the settlement and/or cancellation of the outstanding portion of the 2002 CN of HK\$204,124,640 as held by CEL, HIL and CSIL and the deduction of the estimated fees of approximately HK\$1.5 million to be incurred by the Company in connection with the Issue from the gross proceeds of HK\$260,000,000, net proceeds of approximately HK\$54.4 million will be available to the Company arising from the Issue, which will be used for additional working capital and repayment of certain borrowings of the Group. As at the Latest Practicable Date, apart from the aforesaid, the Board did not have any specific plan or project identified to use the proceeds from the issue.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

CEL is the substantial Shareholder and accordingly, CEL is a connected person of the Company under the Listing Rules. The entering into of the CN Agreement with CEL constitutes a connected transaction for the Company. Accordingly, the issue of all the Convertible Notes to CEL and HIL are subject to, among other things, the approval of disinterested Shareholders (other than CEL, HIL, Other 2002 CN Holders and their respective Associates) by way of a poll at the SGM. Each of CEL and Dr. Chan beneficially owns 5,900,000,000 Shares and 17,280,000 Shares respectively. CSIL beneficially owns 11,200,000 Shares. Save for the foregoing, to the best knowledge of the Directors, as at the Latest Practicable Date, none of CEL, HIL, Other 2002 CN Holders or their respective Associates holds any Shares.

TAKEOVERS CODE IMPLICATION

As at the Latest Practicable Date, CEL, HIL and their respective Concert Parties had approximately 32.30% interest in the Company. CEL, Million Good Limited (being a wholly-owned subsidiary of CEL) and HIL made a joint application for, and obtained from the then independent Shareholders and the Executive, a whitewash waiver in connection with the 2002 CN in March 2002. Pursuant to Rule 26 of the Takeovers Code, upon full conversion of the Convertible Notes, CEL, HIL and their respective Concert Parties will be interested in an aggregate of 18,917,280,000 Shares (or 23,250,613,333 Shares at the Minimum Closing Price of HK\$0.015 per Share), representing approximately 60.41% (or 65.23% at the Minimum Closing Price of HK\$0.015 per Share) of the issued share capital of the Company as enlarged by such conversion and CEL, HIL and their respective Concert Parties would be obliged to make a mandatory unconditional general offer to acquire all the Shares other than those already owned or agreed to be acquired by CEL, HIL and their respective Concert Parties upon exercise of all (or relevant part) of the conversion rights attaching to the Convertible Notes at any time during the term of such convertible notes.

An application has been made on behalf of CEL, HIL and their respective Concert Parties to the Executive for the Whitewash Waiver. The Executive has agreed, subject to approval by the independent Shareholders by way of a poll, to waive such obligation to make a general offer which may result from the exercise of the conversion rights attaching to the CEL Convertible Note and the HIL Convertible Note. In this regard, CEL, HIL and their respective Concert Parties will abstain from voting on the resolution relating to the Whitewash Waiver. Completion of the CN Agreements is conditional upon, inter alia, the granting of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not obtained by the Long Stop Date, the following will occur: (i) the CN Agreements will lapse; (ii) CEL's 2002 CN will have to be repaid on 14 June 2004; and (iii) the outstanding principal amount of HIL's 2002 CN (together with interest accrued thereon) will have to be repaid immediately upon demand by HIL.

CEL, HIL and their respective Concert Parties have confirmed that they have not dealt in the Shares during the six months period immediately preceding the date of the Announcement and ending on the Latest Practicable Date.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a table showing the existing shareholding structure of the Company and its structure upon conversion of the outstanding 2002 CN at HK\$0.032 each in full:

	Existing		Upon conversion of the 2002 CN at HK\$0.032 each in full	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
CEL*#	5,900,000,000	32.21	8,550,000,000	32.56
Dr. Chan ¹	17,280,000	0.09	17,280,000	0.07
HIL*#	—	—	3,369,520,000	12.83
<i>Sub-total</i>	5,917,280,000	32.30	11,936,800,000	45.46
Hounslow ²	3,390,664,440	18.51	3,390,664,440	12.91
<u>Public Shareholders</u>				
Softbank ³	986,486,494	5.39	986,486,494	3.76
CSIL [#]	11,200,000	0.06	370,575,000	1.41
SWHL [#]	—	—	1,562,500,000	5.95
Others	8,011,101,836	43.74	8,011,101,836	30.51
<i>Sub-total</i>	9,008,788,330	49.19	10,930,663,330	41.63
<i>Total</i>	<u>18,316,732,770</u>	<u>100</u>	<u>26,258,127,770</u>	<u>100</u>

LETTER FROM THE BOARD

Set out below is a table showing the existing shareholding structure of the Company and its structure upon conversion of the Convertible Notes at the initial conversion price of HK\$0.020 each in full and the Minimum Closing Price of HK\$0.015 each in full:

	Existing		Upon conversion of the Convertible Notes at HK\$0.020 each in full		Upon conversion of the Convertible Notes at HK\$0.015 each in full	
	Shares	%	Shares	%	Shares	%
CEL* [#]	5,900,000,000	32.21	13,650,000,000	43.59	16,233,333,333	45.54
Dr. Chan ¹	17,280,000	0.09	17,280,000	0.06	17,280,000	0.05
HIL* [#]	–	–	5,250,000,000	16.76	7,000,000,000	19.64
<i>Sub-total</i>	5,917,280,000	32.30	18,917,280,000	60.41	23,250,613,333	65.23
Hounslow ²	3,390,664,440	18.51	3,390,664,440	10.83	3,390,664,440	9.51
<i>Public Shareholders</i>						
Softbank ³	986,486,494	5.39	986,486,494	3.15	986,486,494	2.77
CSIL [#]	11,200,000	0.06	11,200,000	0.03	11,200,000	0.03
SWHL [#]	–	–	–	–	–	–
Others	8,011,101,836	43.74	8,011,101,836	25.58	8,011,101,836	22.46
<i>Sub-total</i>	9,008,788,330	49.19	9,008,788,330	28.76	9,008,788,330	25.26
<i>Total</i>	<u>18,316,732,770</u>	<u>100</u>	<u>31,316,732,770</u>	<u>100</u>	<u>35,650,066,103</u>	<u>100</u>

* Parties who have agreed to subscribe for the Convertible Notes

Parties who subscribed for the 2002 CN

Note 1: Dr. Chan is an executive Director.

Note 2: Hounslow is an investment holding company which is beneficially owned by Mr. Chan Yeuk Wai, a non-executive Director, and his younger brother in equal shares and its principal business is to hold the interests in the Shares. Hounslow had not been involved in the discussion relating to the Issue.

Note 3: Softbank is an investment holding company and has substantial interests in investment companies, the subsidiaries of which are principally engaged in the business of property investment. Mr. Yu Kam Kee, Lawrence (a Director) is the chairman of Softbank and, according to the public records, together with his Associates, are interested in 228,834,991 shares (representing 6.29% shareholding) of Softbank. Softbank had not been involved in the discussion relating to the Issue.

MAINTAINING THE LISTING OF THE COMPANY

It is the intention of the Directors to maintain the listing of the Company on the Stock Exchange after Completion. Upon Completion, approximately 49.19% of the Shares will be held by public. Assuming full conversion of the Convertible Notes at the initial conversion price of HK\$0.020 per Share, approximately 28.76% of the Shares (or approximately 25.26% of the Shares at the Minimum Closing Price of HK\$0.015 per Share) would be held by the public. The Company, CEL and the Directors were jointly and severally undertaken to the Stock Exchange that appropriate steps will be taken to ensure that sufficient public float exists for the Shares immediately following Completion or conversion of the Convertible Notes at any time during the term of the Convertible Notes.

LETTER FROM THE BOARD

The Stock Exchange has stated that, at the date of Completion or any conversion of the Convertible Notes, if less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

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

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

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

INFORMATION ON THE GROUP

The Company is incorporated in Bermuda with limited liability and the Shares are listed on the Stock Exchange. The Company is an investment holding company and the subsidiaries of which are principally engaged in the business of providing package tours, travel and other related services. The Group is also engaged in the hotel operation business.

The following table sets out a summary of the audited consolidated results of the Group for the 12 months ended 31 March 2002, 9 months ended 31 December 2002 and 12 months ended 31 December 2003:

	(Audited) For the 12 months ended 31 March 2002 <i>HK\$ million</i>	(Audited) For the 9 months ended 31 December 2002 <i>HK\$ million</i>	(Audited) For the 12 months ended 31 December 2003 <i>HK\$ million</i>
Turnover	2,029	1,323	1,416
Loss attributable to Shareholders	(654)	(302)	(371)
Audited consolidated net asset value	647	655	293
Audited consolidated net asset value per Share	HK\$0.035	HK\$0.036	HK\$0.016

The Company has undergone a corporate reorganisation, details of which are included in the circular of the Company dated 31 October 2003 and the composite document of the Company dated 19 December 2003. Based on the audited financial statements of the Group for the year ended 31 December 2003, the unaudited proforma adjusted consolidated net tangible asset value of the Company immediately following the closing of the Apex Offer was approximately HK\$373.6 million (representing HK\$0.0204 per Share.)

The Directors do not expect any change in the Board upon Completion and exercise of the respective conversion rights attached to the Convertible Notes.

LETTER FROM THE BOARD

INTENTION OF THE CN SUBSCRIBERS

Upon full conversion of the Convertible Notes, CEL, HIL and their respective Concert Parties will be interested in an aggregate of 18,917,280,000 Shares (or 23,250,613,333 Shares at the Minimum Closing Price of HK\$0.015 per Share), representing approximately 60.41% (or 65.23% at the Minimum Closing Price of HK\$0.015 per Share) of the issued share capital of the Company as enlarged by such conversion. The CN Subscribers intend to maintain the existing businesses of the Group upon conversion of the Convertible Notes. The CN Subscribers do not intend to introduce any major changes to the existing operating and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group, as a result of the conversion of the Convertible Notes. Accordingly, the CN Subscribers believe that there will be no material change to the existing business and employment of the existing employees of the Group as a result of the conversion of the Convertible Notes.

OTHER INFORMATION

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the Convertible Notes.

An independent financial adviser, MasterLink, has been appointed to advise the independent Shareholders regarding the Issue and the Whitewash Waiver.

SGM

Set out on pages 143 to 144 of this circular is a notice convening the SGM to be held at 8th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Tuesday, 8 June 2004 at 10:00 a.m., at which ordinary resolutions will be proposed to approve (a) the CN Agreements, the issue of the Convertible Notes and the allotment and issue of Shares pursuant to the exercise of the conversion rights under the Convertible Notes, and the transactions contemplated thereunder; and (b) the Whitewash Waiver by way of a poll.

Whether or not they are able to attend the meeting in person and vote at such meeting, Shareholders are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereof as soon as possible and return it to the Company's head office and principal place of business at 7th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjourned meeting if they so wish.

PROCEDURE FOR DEMANDING A POLL

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

- (i) by the Chairman of the meeting; or
- (ii) by at least three shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any shareholder or shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having right to vote at the meeting; or

LETTER FROM THE BOARD

- (iv) by any shareholder or shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The results of the poll will be published by way of an announcement in the local newspapers on the business day following the meeting.

RECOMMENDATION

MasterLink, the independent financial advisers to the independent Shareholders, recommends the independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Issue and the Whitewash Waiver.

The text of a letter from MasterLink containing its opinion and the principal factors and reasons it has taken into account in arriving at its opinion as regards to the Issue and the Whitewash Waiver is set out on pages 24 to 37 of this circular.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular, the letter from MasterLink in respect of the Issue and the Whitewash Waiver, and the notice of the SGM.

Yours faithfully,
For and on behalf of the Board of
Wing On Travel (Holdings) Limited
Dr. Chan Kwok Keung, Charles
Executive Director

LETTER FROM MASTERLINK

The following is the text of a letter from MasterLink, the independent financial adviser to the independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the independent Shareholders regarding the Issue and the Whitewash Waiver.



MasterLink Securities (Hong Kong) Corporation Limited

Unit 2603, 26th Floor
The Center
99 Queen's Road Central
Central
Hong Kong

24th May, 2004

*To the independent Shareholders of
Wing On Travel (Holdings) Limited*

Dear Sir or Madam,

THE ISSUE OF HK\$260 MILLION CONVERTIBLE NOTES CONNECTED TRANSACTION AND THE WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment to act as the independent financial adviser to the independent Shareholders in respect of the Issue and the Whitewash Waiver. Details of the Issue and the Whitewash Waiver are set out in the letter from the Board (referred to as the "Letter" hereinafter) contained in the circular of the Company dated 24th May, 2004 (referred to as the "Circular" hereinafter) to the Shareholders and, for information only, to the holders of the 2002 CN, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

CEL is a substantial Shareholder having approximately 32.2% interest in the Company and accordingly, CEL is a connected person of the Company under the Listing Rules. The entering into of the CN Agreement with CEL constitutes a connected transaction for the Company. The issue of the Convertible Notes to CEL and HIL is subject to, among other things which are disclosed under the paragraphs headed "Conditions" in the Letter, the approval of the disinterested Shareholders (other than CEL, HIL, Other 2002 CN Holders and their respective Associates) and the approval of the independent Shareholders (other than CEL, HIL and their respective Concert Parties) in respect of the Whitewash Waiver at the SGM.

Dr. Chan, an executive Director, as at the Latest Practicable Date, was deemed to be interested in approximately 29.4% of the issued share capital of China Strategic which in turn had an effective equity interest of approximately 55.2% and an effective voting interest of approximately 88.8% in CEL. CEL, through its wholly-owned subsidiary, Million Good Limited, is a holder of the 2002 CN and a subscriber

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of the Convertible Notes. Mr. Cheung Hon Kit, the Managing Director of the Company, is an executive director of Paul Y. and a non-executive director of Hanny. Paul Y. and Hanny, as at the Latest Practicable Date, were interested in approximately 29.4% and 29.4% of the issued share capital of China Strategic respectively. Dr. Yap, Allan, an executive Director, is a vice chairman of CEL and China Strategic and the managing director of Hanny. Mr. Lui Siu Tsuen, Richard, an executive Director, is the deputy managing director of Hanny and an alternate director to Dr. Yap, Allan in China Strategic. Both Dr. Chan and Mr. Lui Siu Tsuen, Richard have involved in the negotiations and discussions of the Issue. Ms. Luk Yee Lin, Ellen, an executive Director, is a salaried employee of the Group. Mr. Yu Kam Kee, Lawrence, the Chairman of the Company and an executive Director, is not a salaried employee of the Group. He is the chairman of Softbank, which held approximately 5.4% of the issued share capital of the Company as at the Latest Practicable Date. Mr. Chan Pak Cheung, Natalis, an executive Director, is not a salaried employee of the Group. He was and is still an executive director and the deputy chairman of Star East Holdings Limited (now known as SMI Corporation Limited) which was an associated company of ITC until 19th December, 2003. As stated in the Letter, Dr. Chan is the controlling shareholder of ITC, which is the holding company of Paul Y. Hanny is an associated company of ITC but is not controlled by ITC for the purposes of the Listing Rules and the Takeovers Code. Mr. Chan Yeuk Wai, a non-executive Director and the Honorary Chairman of the Company, is a salaried employee of the Group. Mr. Fok Kin-ning, Canning, a non-executive Director, and Ms. Shih, Edith (alternate to Mr. Fok Kin-ning, Canning) are directors of HIL which is a holder of the 2002 CN and a subscriber of the Convertible Notes. Mr. Lai Hing Chiu, Dominic, an independent non-executive Director, is a senior partner of Messrs. Iu, Lai & Li who are the legal advisers to the Company in relation to the Issue and the granting of the Whitewash Waiver. Mr. Kwok Ka Lap, Alva, an independent non-executive Director, is an independent non-executive director of Hanny and was personally interested in 3,000 shares in HWL as at the Latest Practicable Date. In this case, none of the Directors are considered to be independent in so far as the Issue and the Whitewash Waiver are concerned. We would therefore advise the independent Shareholders directly in respect of the Issue and the Whitewash Waiver. Our opinion does not in any manner address the Company's own decision to proceed with the Issue.

In formulating our opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed, to us by the Directors, the Company and its management. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company and the Directors, and have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We have also assumed that all statements of intention of the Company or its Directors as set out in the Circular will be implemented. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the SGM. We have not, however, carried out any independent verification of the information and representations provided to us, nor have we conducted any form of independent investigation into the businesses and affairs and financial position of the Group, nor any form of assessment of the future prospects of the Group.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Issue and the Whitewash Waiver, we have taken into account the following principal factors and reasons:

Principal terms of the CN Agreements

Set out below are the principal terms of the CN Agreements:

Conversion prices

Holders of the Convertible Notes have the right to convert in whole or in part (in the amount of not less than HK\$250,000 at any one time) the principal amounts of the Convertible Notes into new Shares at an initial conversion price of HK\$0.020 per Share, subject to adjustments as a result of certain events as set out in the CN Agreements (referred to as the “Adjustments” hereinafter), at any time from the date of issue of the Convertible Notes until maturity. According to the Letter, such conversion price was determined after arm’s length negotiations between the Company and parties to the CN Agreements with reference to the prevailing market price per Share.

The initial conversion price of HK\$0.020 per Share represents:

- a premium of approximately 11% over the closing price of HK\$0.018 per Share as quoted on the Stock Exchange on 13th January, 2004 (referred to as the “Relevant Date” hereinafter), being the date of the CN Agreements (subsequently amended on 17th March, 2004 and on 4th May, 2004 by the Supplemental Agreements), i.e. the trading day immediately before trading in the Shares was suspended pending the release of the Announcement;
- a premium of approximately 5% over the average closing price of approximately HK\$0.019 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Relevant Date;
- a premium of approximately 5% over the average closing price of approximately HK\$0.019 per Share as quoted on the Stock Exchange for the one-month period from 15th December, 2003 up to and including the Relevant Date (during which trading in the Shares was suspended for two days on 15th December, 2003 and 16th December, 2003); and
- a premium of approximately 18% over the average closing price of approximately HK\$0.017 per Share as quoted on the Stock Exchange for the one-year period from 14th January, 2003 up to and including the Relevant Date (during which trading in the Shares was suspended for 126 days between 7th April, 2003 and 9th October, 2003 (inclusive of both dates) and two days on 15th December, 2003 and 16th December, 2003).

With reference to the net tangible assets of the Group, the initial conversion price of HK\$0.020 per Share represents:

- a discount of approximately 34% to the unaudited proforma adjusted consolidated net tangible asset value of the Company of approximately HK\$0.0304 per Share as disclosed in the announcement of the Company dated 9th January, 2004;

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- a discount of approximately 33% to the unaudited consolidated net tangible asset value of the Company of approximately HK\$0.0297 per Share as at 30th June, 2003; and
- a discount of approximately 48% to the audited consolidated net tangible asset value of the Company of approximately HK\$0.0382 per Share as at 31st December, 2002 (restated in the interim report of the Company for the six months ended 30th June, 2003).

The closing price as at the Relevant Date as well as the average closing prices as specified above are all in the vicinity of HK\$0.017 to HK\$0.019 per Share which is below the consolidated net tangible asset values of approximately HK\$0.0304, HK\$0.0297 and HK\$0.0382 per Share as at 9th January, 2004, 30th June, 2003 and 31st December, 2002 as stated above respectively. Hence, we concur with the Directors' view that the Shares have been trading below the net asset value of the Company for quite some time. As further advised by the Directors, the Group has been making losses since the financial year ended 31st March, 2002. In view of (i) the Shares having been traded for quite some time below the net asset value of the Group which has been making losses as aforesaid; and (ii) reference is normally made to the market price per share when holders of convertible notes convert their convertible notes into shares, the Directors and we believe that the prevailing market price per Share was a better and more appropriate indicator for the value of the Company per Share at the time of entering into the CN Agreements.

According to the circular of the Company dated 25th March, 2002, the conversion price for the 2002 CN of HK\$0.032 per Share represents a discount of approximately 27.3% to the closing price of HK\$0.044 per Share immediately before suspension of trading in the Shares pending the release of the joint announcement of the Company and Million Good Limited dated 8th February, 2002, and a discount of approximately 30.4% to the closing price of HK\$0.046 per Share as at 20th March, 2002 (being the latest practicable date for the circular of the Company dated 25th March, 2002 relating to the 2002 CN). With reference to the closing price of HK\$0.018 per Share as quoted on the Stock Exchange as at the Relevant Date, the conversion price for the 2002 CN of HK\$0.032 per Share represents a premium of approximately 78% over such a price. However, as discussed below under the paragraph headed "Extension of the 2002 CN", due to the unattractiveness of the conversion price for the 2002 CN, the intention of CSIL and SWHL to redeem the outstanding portion of their respective 2002 CN upon maturity, i.e. 19th April, 2004, as stated in the Announcement and the subsequent repayment of the 2002 CN issued to SWHL, the Directors and we consider that the extension of the 2002 CN is not feasible.

In light of the fact that: (i) the initial conversion price for the Convertible Notes represents a premium over the closing price per Share as at the Relevant Date, and premiums over the average closing prices per Share for the last 10 consecutive trading days, one-month and one-year periods up to and including the Relevant Date, as specified above; and (ii) in contrast, the conversion price for the 2002 CN represents discounts to the closing prices of the Shares immediately before suspension of trading in the Shares pending the release of the joint announcement of the Company and Million Good Limited dated 8th February, 2002 and as at 20th March, 2002 as mentioned above, we consider that the initial conversion price for the Convertible Notes of HK\$0.020 per Share is favourable to the Company as a whole and the independent Shareholders generally concerned.

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According to the Letter, if and whenever the average closing price per Share for the 20 consecutive trading days (referred to as the “Relevant Average Closing Price” hereinafter) immediately preceding the first or second anniversary of the date of issue of the relevant Convertible Notes is lower than the then prevailing conversion price, such conversion price shall be immediately adjusted to the Relevant Average Closing Price, provided that the Relevant Average Closing Price shall not fall below the Minimum Closing Price of HK\$0.015 per Share (subject to adjustments as set out in the CN Agreements). As further stated in the Letter, the Minimum Closing Price was commercially agreed and arrived at after arm’s length negotiations between the Company and each of the CN Subscribers.

The Minimum Closing Price of HK\$0.015 per Share represents:

- a discount of approximately 17% to the closing price of HK\$0.018 per Share as quoted on the Stock Exchange as at the Relevant Date; and
- a discount of approximately 51% to the unaudited proforma adjusted consolidated net tangible asset value of the Company of approximately HK\$0.0304 per Share as disclosed in the announcement of the Company dated 9th January, 2004.

According to the Letter, the initial conversion price of HK\$0.020 per Share (subject to Adjustments) will remain unchanged throughout the first year immediately preceding the first anniversary of the date of issue of the Convertible Notes. As regard to the basis of the Relevant Average Closing Price upon which the conversion price is adjusted as at the first or second anniversary of the date of issue of the relevant Convertible Notes, we consider that the average closing price per Share for an approximately one calendar month represents a reasonable indicator for the then prevailing market value per Share. Therefore, we consider that the arrangement for adjusting the then prevailing conversion price within the range of the Minimum Closing Price of HK\$0.015 per Share and the initial conversion price of HK\$0.020 per Share as aforesaid is justifiable in so far as the Company as a whole and the independent Shareholders generally are concerned.

Interest

The Convertible Notes carry an interest rate of 2% per annum, payable every six months in arrears. According to the circular of the Company dated 25th March, 2002, the interest rate of the 2002 CN is 2% per annum, payable semi-annually in arrears. Hence, the interest rate of the Convertible Notes is the same as and no worse than that of the 2002 CN. As confirmed by the Company, the average cost of borrowings of the Group outstanding throughout the year ended 31st December, 2003 was approximately 5% per annum and the interest rate of borrowings for the repayment of SWHL’s 2002 CN is Hong Kong prime rate plus 2% per annum, i.e. 7% per annum assuming the current Hong Kong prime rate of 5% remains unchanged on the date of issue of the Convertible Notes. Furthermore, as at the Latest Practicable Date, the yield of the 3-year Hong Kong Exchange Fund Notes was 2.985% per annum which is higher than the interest rate of the Convertible Notes of 2% per annum. Considering that the interest rate of 2% per annum is: (i) the same as and no worse than that of the 2002 CN; (ii) lower than the average cost of borrowings of the Group and the interest rate of the borrowings for the repayment of SWHL’s 2002 CN as aforesaid; and (iii) lower than the yield of the 3-year Hong Kong Exchange Fund Notes as at the Latest Practicable Date, we are of the view that the interest rate of the Convertible Notes of 2% per annum is favourable to the Company as a whole and the independent Shareholders generally concerned.

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Redemption

The Company shall, unless the Convertible Notes have previously been converted, repay the outstanding principal amount of the Convertible Notes, together with any interest accrued thereon up to and including the third anniversary of the date of issue of the Convertible Notes. We consider this repayment term normal for debt securities of this kind.

Security

We have noted that the Convertible Notes would not be secured by any assets of the Group as indemnities, mortgages or surety for the obligations of the Company to repay the Convertible Notes. We consider that the arrangement as aforesaid would be favourable to the Company as a whole and the independent Shareholders generally concerned.

Comparison with other convertible notes

Set out below is a summary of the principal terms of convertible notes with principal amount within the range of HK\$100 million to HK\$400 million issued by companies listed on the Main Board of the Stock Exchange during the one-month period prior to the date of the Announcement, i.e. 17th March, 2004.

	Principal amount (HK\$ Million)	Length of term (Year)	Interest rate (Per annum)	Premium/ (Discount) (Note)	Date of announcement
Neo-China Group (Holdings) Limited	210	3	1%	8.8%	23rd February, 2004
China Eagle Group Company Limited	300	3	2%	(20%)	24th February, 2004
Eagle Nice (International) Holdings Limited	207.06	3	0%	12.0%	3rd March, 2004
Wing On	260	3	2%	11% (17%)	17th March, 2004

- at initial conversion price of HK\$0.020 per Share
- at Minimum Closing Price of HK\$0.015 per Share

Note: Premium/(Discount) is calculated with reference to the conversion price per share as compared to the closing price of the shares of the above companies listed on the Main Board of the Stock Exchange on the last trading day preceding the date of announcement in respect of the issue of the above convertible notes.

As depicted above, (i) the interest rate of the Convertible Notes of 2% per annum; (ii) the premium of approximately 11% represented by the initial conversion price of HK\$0.020 per Share over the closing price of HK\$0.018 per Share as at the Relevant Date; and (iii) the discount of approximately 17% represented by the Minimum Closing Price of HK\$0.015 per Share to the closing price of HK\$0.018 per Share as at the Relevant Date, fall within the range of the above convertible notes.

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Conclusion

Taking into account that:

- (i) the initial conversion price for the Convertible Notes of HK\$0.020 per Share is favourable to the Company as a whole and the independent Shareholders generally concerned;
- (ii) the arrangement for adjusting the conversion price as at the first or second anniversary of the date of issue of the relevant Convertible Notes within the range of the Minimum Closing Price of HK\$0.015 per Share and the initial conversion price of HK\$0.020 per Share, as discussed above, is justifiable in so far as the Company as a whole and the independent Shareholders generally are concerned;
- (iii) the interest rate of the Convertible Notes of 2% per annum is favourable to the Company as a whole and independent Shareholders generally concerned;
- (iv) the repayment term is considered normal for debt securities of this kind;
- (v) the Convertible Notes are unsecured, which we consider is favourable to the Company as a whole and the independent Shareholders generally concerned; and
- (vi) the principal terms of the CN Agreements are comparable with those of the convertible notes with principal amount within the range of HK\$100 million to HK\$400 million issued by companies listed on the Main Board of the Stock Exchange during the one-month period prior to the date of the Announcement, i.e. 17th March, 2004,

we are of the view that, on balance, the terms of the CN Agreements are fair and reasonable in so far as the Company as a whole and the independent Shareholders generally are concerned.

Alternative means of financing to the Issue

The Directors have considered the following alternative means of financing:

Extension of the 2002 CN

The conversion price for the 2002 CN is HK\$0.032 per Share which exceeds the closing price of HK\$0.018 per Share as at the Relevant Date by approximately 78%, the unaudited proforma adjusted consolidated net tangible asset value as at 9th January, 2004 of approximately HK\$0.0304 per Share by approximately 5%, the audited consolidated net tangible asset value as at 31st December, 2003 of approximately HK\$0.0160 per Share by 100% and the unaudited consolidated net tangible asset value as at 30th June, 2003 of approximately HK\$0.0297 per Share by approximately 8%. Therefore, the conversion price for the 2002 CN is no longer attractive to the holders of the 2002 CN as compared to the market price per Share and the net tangible asset values per Share as aforesaid. Besides, according to the Announcement, both CSIL and SWHL had indicated that they intended to redeem the outstanding portion of their respective 2002 CN, i.e. a total of HK\$61,500,000 which represents approximately 24.2% of the outstanding 2002 CN as at the Relevant Date, upon maturity which was on 19th April, 2004. As confirmed by the Company, the 2002 CN

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issued to SWHL was repaid on 22nd April, 2004. As stated in the Letter, the 2002 CN issued by the Company to CSIL has been due and the Company has approached CSIL and requested an extension of time for repayment of such outstanding principal amount. According to the Company, subject to any agreement to be made between the Company and CSIL, an interest on the outstanding principal amount of CSIL's 2002 CN will continue to be accrued at 2% per annum. As at the Latest Practicable Date, the Company has not received any demand from CSIL for repayment of CSIL's 2002 CN. Due to the unattractiveness of the conversion price for the 2002 CN, the intention of CSIL and SWHL to redeem the outstanding portion of their respective 2002 CN upon maturity as stated in the Announcement, and the subsequent repayment of the 2002 CN issued to SWHL, the Directors and we consider that the extension of the 2002 CN is not feasible.

Bank borrowings

Given the Group has been making losses since the financial year ended 31st March, 2002 as advised by the Directors and the gearing ratio of the Group stands at a relatively high level as discussed below, the Directors expect that the cost of bank borrowings will be high. Therefore, the interest rate of the Convertible Notes of 2% per annum, which is below the average cost of borrowings of the Group outstanding throughout the year ended 31st December, 2003, i.e. approximately 5% per annum, the interest rate of borrowings for the repayment of SWHL's 2002 CN, i.e. Hong Kong prime rate plus 2% per annum, and the yield of the 3-year Hong Kong Exchange Fund Notes as at the Latest Practicable Date, i.e. 2.985% per annum, is considered to be low as opposed to the high cost of bank borrowings expected by the Directors. Besides, the Convertible Notes are free from any pledge of assets of the Group where bank borrowings will normally require a pledge of certain assets of the Group. In light of the higher expected cost to be incurred and the requirement of a pledge of certain assets of the Group, we consider that bank borrowings are a less appropriate means of financing than the Issue.

Rights issue or open offer

The average daily trading volume of the Shares for the trading days during the one-year period from 14th January, 2003 up to and including the Relevant Date (during which trading in the Shares was suspended for 126 days between 7th April, 2003 and 9th October, 2003 (inclusive of both dates) and two days on 15th December, 2003 and 16th December, 2003) is approximately 74,098,000 Shares per day, representing approximately 0.40% of the total number of Shares in issue and approximately 0.82% of the number of Shares in public hands as at the Latest Practicable Date. Due to the fact that the trading volume of the Shares is very thin and, as advised by the Directors, the Group has been making losses since the financial year ended 31st March, 2002, it is inevitable that an appropriate discount to the subscription price has to be offered in order for a rights issue or an open offer to be fully underwritten by an independent underwriter. Besides, a rights issue or an open offer should take a longer period of time to complete than the Issue. In light of the fact that (i) the initial conversion price for the Convertible Notes represents premiums to the closing prices per Share as discussed above as opposed to a discount that would have to be offered if a rights issue or an open offer is taken as an alternative means of financing to the Issue; and (ii) the Issue should take a shorter period of time to complete than a rights issue or an open offer, we consider that a rights issue or an open offer is less appropriate than the Issue.

Conclusion

In view of the downsides of the extension of the 2002 CN, bank borrowings and a rights issue or an open offer as discussed above, we consider that the Issue is by far an appropriate means of financing.

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Reasons for the Issue

As at the Latest Practicable Date, the aggregate outstanding principal amount of the 2002 CN held by CEL, HIL and CSIL was HK\$204,124,640 which have matured but have not yet been repaid. Under the Supplemental Agreement with CEL, CEL has agreed to extend the time for the repayment of the outstanding principal amount of its 2002 CN, being HK\$84,800,000, together with interest accrued thereon, to Completion or 14th June, 2004, whichever is earlier. Under the Supplemental Agreement with HIL, the Company has acknowledged that HIL has the right to demand repayment of the outstanding principal amount of its 2002 CN, being HK\$107,824,640, together with interest accrued thereon at any time after the maturity date of the 2002 CN. As at the Latest Practicable Date, the Company has not received any demand from HIL for repayment of HIL's 2002 CN. Interest at 2% per annum will continue to be accrued on the outstanding principal amount of the 2002 CN from 20th April, 2004, being the date immediately following the maturity date of the 2002 CN, up to and including the date of Completion or 14th June, 2004, whichever is earlier. As stated in the Letter, the 2002 CN issued by the Company to CSIL has been due and the Company has approached CSIL and requested an extension of time for repayment of such outstanding principal amount. According to the Company, subject to any agreement to be made between the Company and CSIL, an interest on the outstanding principal amount of CSIL's 2002 CN will continue to be accrued at 2% per annum. As at the Latest Practicable Date, the Company has not received any demand from CSIL for repayment of CSIL's 2002 CN. According to the annual report of the Company for the year ended 31st December, 2003, the cash and bank balances of the Group as at 31st December, 2003 amounted to approximately HK\$112 million which is not sufficient to settle the aggregate outstanding principal amount of the 2002 CN and repay any interest thereon. Compared with all alternative means of financing to the Issue as discussed above, the Issue is by far an appropriate means of financing. Therefore, we concur with the Directors' view that it will be in the interest of the Company to issue the Convertible Notes. Furthermore, upon Completion and after the settlement and/or cancellation of the outstanding portion of the 2002 CN of HK\$204,124,640 and the deduction of the estimated fees of approximately HK\$1.5 million to be incurred by the Company in connection with the Issue from the gross proceeds of HK\$260,000,000, net proceeds of approximately HK\$54.4 million will be available to the Company, which will be used as additional working capital and repayment of certain borrowings of the Group. In addition, we have noted from the Letter that, apart from the aforesaid, the Board did not have any specific plan or project identified to use the proceeds from the Issue as at the Latest Practicable Date. Therefore, we concur with the Directors' view that the Issue will preserve and further strengthen the working capital of the Group.

Financial impact of the Issue

Shareholding structure

A table depicting the respective shareholding structures of the Company upon conversion of the Convertible Notes in full at the initial conversion price of HK\$0.020 per Share and the Minimum Closing Price of HK\$0.015 per Share is set out under the section headed "Shareholding structure of the Company" in the Letter. As a result of the conversion of the Convertible Notes in full at the initial conversion price of HK\$0.020 per Share, a total of 13,000,000,000 new Shares will be issued which represents approximately 71% of the issued share capital of the Company as at the Latest Practicable Date and approximately 42% of the issued share capital of the Company enlarged by such conversion, the percentage shareholding of the existing Shareholders other than CEL, HIL and their respective Concert Parties will be diluted by approximately 42% immediately upon such conversion. On the other hand, as a result of the conversion of the Convertible Notes in full at the Minimum Closing Price of HK\$0.015 per Share, a total of 17,333,333,333 new Shares will be issued which represents approximately 95% of the issued share capital of the Company as at the Latest Practicable

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Date and approximately 49% of the issued share capital of the Company enlarged by such conversion, the percentage shareholding of the existing Shareholders other than CEL, HIL and their respective Concert Parties will be diluted by approximately 49% immediately upon such conversion. Having considered that: (i) there is an immediate need of the Company for the funding to be raised through the Issue as explained in the sub-section headed “Reasons for the Issue” in this letter; (ii) the Issue is by far an appropriate means of financing compared with all alternative means of financing as discussed above; and (iii) the dilution effects on the shareholding will only happen if the Convertible Notes are converted into the new Shares in full or in part in the future, we consider that the dilution effects on the shareholding as aforesaid are justifiable in so far as the independent Shareholders generally are concerned.

Loss per Share

As confirmed by the Company, the table below depicts the respective effects on loss per Share upon conversion of the Convertible Notes in full at the initial conversion price of HK\$0.020 per Share and the Minimum Closing Price of HK\$0.015 per Share based on the audited consolidated result of the Group for the year ended 31st December, 2003.

	Before conversion of any Convertible Notes HK\$'000	Upon conversion of the Convertible Notes in full at HK\$0.020 per Share HK\$'000	Upon conversion of the Convertible Notes in full at HK\$0.015 per Share HK\$'000
Audited consolidated net loss for the year ended 31st December, 2003	(370,972)	(370,972)	(370,972)
Add: Interest saved upon settlement and/or cancellation of the outstanding 2002 CN for 12 months (<i>Note 1</i>)	–	4,082	4,082
Less: Interest accrued arising from the Convertible Notes for 12 months (<i>Note 2</i>)	–	(5,200)	(5,200)
	<u>–</u>	<u>(5,200)</u>	<u>(5,200)</u>
Audited/Adjusted consolidated net loss for the year ended 31st December, 2003	<u>(370,972)</u>	<u>(372,090)</u>	<u>(372,090)</u>
Number of Shares in issue	18,316,732,770	31,316,732,770	35,650,066,103
Loss per Share	HK2.03 cents	HK1.19 cents	HK1.04 cents
Decrease of:		41%	49%

Notes:

- 2% per annum on the aggregate outstanding principal amount of the 2002 CN as at the Latest Practicable Date of HK\$204,124,640.
- 2% per annum on the aggregate principal amount of the Convertible Notes of HK\$260,000,000.

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We have noted from the above table that loss per Share would decrease by approximately 41% and approximately 49% upon conversion of the Convertible Notes in full at HK\$0.020 per Share and HK\$0.015 per Share, respectively. Such decreases are mainly due to the respective dilution effects brought by conversion of the Convertible Notes in full as discussed above.

Consolidated net tangible asset value per Share

With reference to the statement of the unaudited proforma adjusted consolidated net tangible assets of the Group as contained in Appendix I to the Circular, the unaudited proforma adjusted consolidated net tangible asset values per Share are as follows:

Unaudited proforma adjusted consolidated net tangible asset value per Share immediately after the closing of the Apex Offer	HK2.040 cents (based on 18,316,732,770 Shares in issue as at the Latest Practicable Date)
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Unaudited proforma adjusted consolidated net tangible asset value per Share after the closing of the Apex Offer and the Issue but before conversion of any Convertible Notes	HK2.031 cents (based on 18,316,732,770 Shares in issue as at the Latest Practicable Date)
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Decrease of:	0.44%
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Unaudited proforma adjusted consolidated net tangible asset value per Share after closing of the Apex Offer and the Issue, and upon conversion of Convertible Notes in full at HK\$0.020 per Share	HK2.018 cents (based on 31,316,732,770 Shares)
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Decrease of:	1.08%
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Unaudited proforma adjusted consolidated net tangible asset value per Share after closing of the Apex Offer and the Issue, and upon conversion of Convertible Notes in full at HK\$0.015 per Share	HK1.773 cents (based on 35,650,066,103 Shares)
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Decrease of:	13.09%
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We have noted from above that the consolidated net tangible asset value per Share would decrease by approximately 0.44% after the closing of the Apex Offer and the Issue but before conversion of any Convertible Notes. Such decrease is due to the expenses in respect of the Issue which are estimated to be approximately HK\$1.5 million. In addition, we have

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noted from above that the consolidated net tangible asset values per Share would decrease by approximately 1.08% and 13.09% upon conversion of Convertible Notes in full at HK\$0.020 and HK\$0.015 per Share, respectively. Such decreases are mainly due to the respective effects brought by conversion of the Convertible Notes in full at a price below the unaudited proforma adjusted consolidated net tangible asset value per Share immediately after the closing of the Apex Offer of approximately HK2.040 cents as specified above. Having considered that: (i) there is an immediate need of the Company for the funding to be raised through the Issue as explained in the sub-section headed “Reasons for the Issue” in this letter; and (ii) the Issue is by far an appropriate means of financing as compared with all alternatives as discussed above, we consider that the decrease in consolidated net tangible asset values per Share as aforesaid is justifiable in so far as the independent Shareholders generally are concerned.

Gearing ratio

As confirmed by the Company, the gearing ratio of the Group (calculated as total borrowings divided by Shareholders’ funds) based on the audited consolidated balance sheet of the Group as at 31st December, 2003 will increase from approximately 177% to approximately 197% upon Completion and after the settlement and/or cancellation of the outstanding portion of the 2002 CN of HK\$204,124,640 and the deduction of the estimated fees of approximately HK\$1.5 million to be incurred by the Company in connection with the Issue from the gross proceeds of HK\$260,000,000. Such increase in the gearing ratio of the Group is mainly due to the difference between the gross proceeds of HK\$260,000,000 arising from the Issue and the settlement and/or cancellation of the outstanding portion of the 2002 CN of HK\$204,124,640. As discussed above, the net proceeds of approximately HK\$54.4 million arising from the Issue will be available to the Company as additional working capital and for repayment of certain borrowings of the Group. Assuming that HK\$50 million of the net proceeds arising from the Issue is used to repay the borrowings for the repayment of SWHL’s 2002 CN, the gearing ratio of the Group will then drop from approximately 197% to approximately 180%, representing a slight increase of approximately 3% on the gearing ratio of the Group based on the audited consolidated balance sheet of the Group as at 31st December, 2003 of approximately 177%. Having considered that: (i) there is an immediate need of the Company for the funding to be raised through the Issue as explained in the sub-section headed “Reasons for the Issue” in this letter; and (ii) the Issue is by far an appropriate means of financing as compared with all alternatives as discussed above, we consider that the increases in gearing ratio as aforesaid are justifiable in so far as the independent Shareholders generally are concerned.

Whitewash Waiver

As at the Latest Practicable Date, CEL, HIL and their respective Concert Parties had a total of approximately 32.3% equity interest in the Company. Upon full conversion of the Convertible Notes, CEL, HIL and their respective Concert Parties will be interested in an aggregate of 18,917,280,000 Shares (or 23,250,613,333 Shares at the Minimum Closing Price of HK\$0.015 per Share), representing approximately 60.4% (or approximately 65.2% at the Minimum Closing Price of HK\$0.015 per Share) of the issued share capital of the Company as enlarged by such conversion. Pursuant to Rule 26 of the Takeovers Code, CEL, HIL and their respective Concert Parties would be obliged to make a mandatory unconditional general offer to acquire all the Shares other than those already owned or agreed to be acquired by CEL, HIL and their respective Concert Parties upon exercise of all (or relevant part) of the conversion rights attaching to the Convertible Notes at any time during the term of the Convertible Notes.

LETTER FROM MASTERLINK

Independent Shareholders should note that the Completion is conditional upon, among other things which are disclosed under the paragraphs headed “Conditions” in the Letter, the granting of the Whitewash Waiver by the Executive. An application has been made on behalf of CEL, HIL and their respective Concert Parties to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval by the independent Shareholders on a vote by way of poll at the SGM. In the event that the Whitewash Waiver is not granted by the Long Stop Date, i.e. 14th June, 2004, the following will occur: (i) the CN Agreements will lapse; (ii) CEL’s 2002 CN will have to be repaid on 14th June, 2004; and (iii) the outstanding principal amount of HIL’s 2002 CN, together with interest accrued thereon, will have to be repaid immediately upon demand by HIL.

According to the Letter, the Directors do not expect any change in the Board upon Completion and exercise of the respective conversion rights attaching to the Convertible Notes. We have also noted that the CN Subscribers (i) intend to maintain the existing businesses of the Group upon conversion of the Convertible Notes; and (ii) do not intend to introduce any major changes to the existing operating and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group as a result of the conversion of the Convertible Notes as stated in the Letter. Therefore, upon Completion and conversion of the Convertible Notes, the continuity of the management of the Group will not be disrupted or affected, and there will be no material change to the existing business of the Group. In light of the aforesaid and our opinion as discussed above that the terms of the CN Agreements are, on balance, fair and reasonable and the Issue is in the interest of the Company and the Shareholders as a whole, we consider that it is in the interest of the independent Shareholders to vote in favour of the Whitewash Waiver.

RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- (i) on balance, the terms of the CN Agreements are fair and reasonable in so far as the Company as a whole and independent Shareholders generally are concerned;
- (ii) the Issue is by far an appropriate means of financing as compared with the extension of the 2002 CN, bank borrowings and a rights issue or an open offer;
- (iii) the Issue will preserve and further strengthen the working capital of the Group;
- (iv) the dilution effects on the shareholding of the independent Shareholders brought by conversion of the Convertible Notes in full at the initial conversion price of HK\$0.020 per Share and the Minimum Closing Price of HK\$0.015 per Share are justifiable in so far as the independent Shareholders generally are concerned;
- (v) the decrease in consolidated net tangible asset values per Share (after the closing of the Apex Offer and the Issue but before conversion of any Convertible Notes, and upon conversion of the Convertible Notes in full at the initial conversion price of HK\$0.020 per Share and the Minimum Closing Price of HK\$0.015 per Share) is justifiable in so far as the independent Shareholders generally are concerned;

LETTER FROM MASTERLINK

- (vi) the increases in gearing ratio (upon Completion and after the settlement and/or cancellation of the outstanding portion of the 2002 CN of HK\$204,124,640 and the deduction of the estimated fees of approximately HK\$1.5 million to be incurred by the Company in connection with the Issue from the gross proceeds of HK\$260,000,000, and assuming that HK\$50 million of the net proceeds arising from the Issue is used to repay the borrowings for the repayment of SWHL's 2002 CN) are justifiable in so far as the independent Shareholders generally are concerned;
- (vii) the Directors do not expect any change in the Board upon Completion and exercise of the respective conversion rights attaching to the Convertible Notes; and
- (viii) upon Completion and conversion of the Convertible Notes, the continuity of the management of the Group will not be disrupted or affected, and there will be no material change to the existing business of the Group,

we consider that (i) the terms of the Issue are, on balance, fair and reasonable in so far as the independent Shareholders generally are concerned; and (ii) the Whitewash Waiver is in the interest of the independent Shareholders. Accordingly, we recommend the independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Issue and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
MasterLink Securities (Hong Kong) Corporation Limited
Jimmy Chan
Director

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>50,000,000,000</u>	Shares	<u>500,000,000</u>
<i>Issued and fully paid:</i>		
<u>18,316,732,770</u>	Shares	<u>183,167,328</u>

All Shares currently in issue rank pari passu in all respects, including, in particular, as to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange. The Company has a share option scheme (the “Scheme”) and was approved and adopted on 3 May 2002. The Board may, at its discretion, grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive Directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries in accordance with the terms of the Scheme. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme. As at the Latest Practicable Date, no options have been granted under the Scheme since its adoption.

On 19 April 2002, the Company issued the 2002 CN, details of which were set out in the announcement of the Company dated 8 February 2002 and the circular of the Company dated 25 March 2002. As at the Latest Practicable Date, the total outstanding amount of the 2002 CN was HK\$204,124,640.

Save as disclosed above and other than the Convertible Notes to be issued under the CN Agreements, the Group has no options, warrants, derivatives or other securities that are convertible into Shares.

The share capital of the Company has not been altered for the period between 31 December 2003 and the Latest Practicable Date.

2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

During 2002, the Board resolved to change the financial year end date of the Company from 31 March to 31 December in order to coincide with the financial year end of an indirect substantial shareholder of the Company. The following is a summary of the results and financial position of the Group for the year ended 31 December 2003, the 9 months ended 31 December 2002 and the year ended 31 March 2002, the audited consolidated income statement of the Group for the year ended 31 December 2003 and the 9 months ended 31 December 2002, the audited consolidated balance sheet of the Group and the audited balance sheet of the Company as at 31 December 2003 and 31 December 2002, the audited consolidated statement of changes in equity and audited consolidated cash flow statement of the Group for the year ended 31 December 2003 and the 9 months ended 31 December 2002, together with the accompanying notes extracted from the annual report of the Company for the year ended 31 December 2003.

FINANCIAL SUMMARY

Results

	For the 12 months ended 31 December 2003 <i>HK\$'000</i>	For the 9 months ended 31 December 2002 <i>HK\$'000</i> (Restated)	For the 12 months ended 31 March 2002 <i>HK\$'000</i>
TURNOVER	<u>1,416,235</u>	<u>1,323,286</u>	<u>2,028,897</u>
LOSS FROM OPERATIONS	(145,329)	(256,270)	(530,640)
FINANCE COSTS	(25,045)	(12,708)	(15,402)
SHARE OF RESULTS OF ASSOCIATES	(114,788)	(33,463)	(129,288)
IMPAIRMENT LOSS RECOGNISED IN RESPECT OF INTEREST IN AN ASSOCIATE	(31,717)	–	–
LOSS ON DISPOSAL OF DISCONTINUED OPERATION	(32,697)	–	–
LOSS ON DISPOSAL OF ASSOCIATES	(23,471)	–	–
(LOSS) GAIN ON DEEMED DISPOSAL/ DISPOSAL OF SUBSIDIARIES	–	(1,712)	2,373
IMPAIRMENT LOSS RECOGNISED IN RESPECT OF GOODWILL RESERVE ARISING FROM ACQUISITION OF AN ASSOCIATE	<u>–</u>	<u>–</u>	<u>(8,439)</u>
LOSS BEFORE TAXATION	(373,047)	(304,153)	(681,396)
TAXATION CREDIT	<u>2,075</u>	<u>669</u>	<u>11,707</u>
LOSS BEFORE MINORITY INTERESTS	(370,972)	(303,484)	(669,689)
MINORITY INTERESTS	<u>–</u>	<u>1,236</u>	<u>15,934</u>
NET LOSS FOR THE YEAR/PERIOD	<u>(370,972)</u>	<u>(302,248)</u>	<u>(653,755)</u>
LOSS PER SHARE	2.03 cents	1.83 cents	7.44 cents
DIVIDEND PER SHARE	–	–	–

Assets and liabilities

	At 31 December 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i> (Restated)	At 31 March 2002 <i>HK\$'000</i>
TOTAL ASSETS	1,107,351	1,431,314	1,158,246
TOTAL LIABILITIES	784,252	776,738	492,739
MINORITY INTERESTS	<u>29,778</u>	<u>–</u>	<u>18,173</u>
SHAREHOLDERS' FUNDS	<u>293,321</u>	<u>654,576</u>	<u>647,334</u>

There were no extraordinary or exceptional items recorded during the year ended 31 December 2003, the 9 months ended 31 December 2002 and the year ended 31 March 2002.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED INCOME STATEMENT***For the year ended 31 December 2003*

		1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000 (Restated)
	<i>Notes</i>		
Turnover	4	1,416,235	1,323,286
Direct operating costs		(1,258,481)	(1,170,593)
Gross profit		157,754	152,693
Other operating income	6	22,536	16,925
Distribution costs		(38,809)	(30,974)
Administrative expenses		(202,699)	(172,800)
Loss on disposal of investment securities		(30,633)	–
Loss on disposal of interest in a co-operative joint venture	20	(20,000)	–
Loss on disposal of other investments		(465)	–
Net unrealised holding loss on other investments		(2,849)	(733)
Amortisation of goodwill arising on acquisition of subsidiaries	22	(496)	(165)
Impairment loss recognised in respect of investments in securities	21	(26,974)	–
Impairment loss recognised in respect of properties under construction	14	(2,400)	(1,000)
Impairment loss recognised in respect of leasehold land and buildings	14	(301)	(12,281)
Surplus arising from revaluation of investment property	15	7	–
Allowance for short term investment deposit		–	(23,000)
Allowance for advances to service suppliers		–	(162,122)
Allowance for irrecoverable trade debts		–	(22,813)
Loss from operations	7	(145,329)	(256,270)
Finance costs	9	(25,045)	(12,708)
Share of results of associates		(114,788)	(33,463)
Impairment loss recognised in respect of interest in an associate	17	(31,717)	–
Loss on disposal of discontinued operation	39	(32,697)	–
Loss on disposal of associates		(23,471)	–
Loss on deemed disposal/disposal of subsidiaries	40	–	(1,712)
Loss before taxation		(373,047)	(304,153)
Taxation credit	11	2,075	669
Loss before minority interests		(370,972)	(303,484)
Minority interests		–	1,236
Net loss for the year/period		<u>(370,972)</u>	<u>(302,248)</u>
Dividends	12	<u>–</u>	<u>–</u>
Loss per share			
Basic	13	<u>(2.03) cents</u>	<u>(1.83) cents</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED BALANCE SHEET***At 31 December 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Non-current assets			
Property, plant and equipment	14	70,213	237,611
Investment property	15	1,400	1,230
Interest in associates	17	221,467	489,357
Other long term investment	19	70,500	70,500
Long term investment deposits	20	–	60,000
Investments in securities	21	99,258	22,626
Goodwill	22	–	13,067
		<u>462,838</u>	<u>894,391</u>
Current assets			
Inventories	23	667	1,263
Amounts due from related companies	24	2,928	956
Amounts due from associates	25	11,732	4,450
Trade and other receivables	26	350,838	338,097
Consideration receivable on disposal of an associate and interest in a co-operative joint venture		108,000	–
Loan receivables	27	54,950	122,472
Investments in securities	21	2,847	5,450
Tax recoverable		36	760
Pledged bank deposits		390	802
Trading cash balances	28	416	1,163
Bank balances and cash		<u>111,709</u>	<u>61,510</u>
		<u>644,513</u>	<u>536,923</u>
Current liabilities			
Trade and other payables	29	239,191	241,560
Loans from related companies	30	8,000	6,474
Amounts due to associates	25	12,134	25,488
Amounts due to related companies	31	13,009	11,669
Tax payable		–	61
Obligations under finance leases and sale and lease back arrangements			
– amount due within one year	32	–	8,764
Borrowings – amount due within one year	33	28,230	184,474
Convertible notes	34	<u>254,125</u>	<u>–</u>
		<u>554,689</u>	<u>478,490</u>
Net current assets		<u>89,824</u>	<u>58,433</u>
Total assets less current liabilities c/f		<u>552,662</u>	<u>952,824</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Total assets less current liabilities b/f		<u>552,662</u>	<u>952,824</u>
Minority interests		<u>29,778</u>	<u>–</u>
Non-current liabilities			
Loans from related companies	30	223,312	–
Borrowings – amount due after one year	33	6,251	21,689
Convertible notes	34	–	254,125
Obligations under finance leases and sale and lease back arrangements – amount due after one year	32	–	14,384
Deferred taxation	35	<u>–</u>	<u>8,050</u>
		<u>229,563</u>	<u>298,248</u>
Net assets		<u><u>293,321</u></u>	<u><u>654,576</u></u>
Capital and reserves			
Share capital	36	183,167	183,167
Reserves	38	<u>110,154</u>	<u>471,409</u>
Shareholders' funds		<u><u>293,321</u></u>	<u><u>654,576</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET***At 31 December 2003*

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> (Restated)
Non-current assets			
Property, plant and equipment	14	1,715	1,266
Investments in subsidiaries	16	178,000	178,000
Interest in an associate	17	–	500
Other long term investment	19	70,500	70,500
Long term investment deposits	20	–	60,000
		<u>250,215</u>	<u>310,266</u>
Current assets			
Trade and other receivables		13,509	2,119
Consideration receivable on disposal of interest in a co-operative joint venture		40,000	–
Amounts due from subsidiaries		472,605	659,613
Amount due from an associate	25	11,582	1,503
Amount due from a related company	24	392	–
Loan receivables	27	31,950	22,272
Bank balances and cash		31,573	20,552
		<u>601,611</u>	<u>706,059</u>
Current liabilities			
Trade and other payables		14,584	9,610
Amounts due to subsidiaries		31,641	106,934
Amount due to an associate	25	141	141
Loans from related companies	30	–	475
Amounts due to related companies	31	5,382	43
Obligations under a finance lease – amount due within one year	32	–	21
Borrowings – amount due within one year	33	28,000	120,000
Convertible notes	34	254,125	–
		<u>333,873</u>	<u>237,224</u>
Net current assets		<u>267,738</u>	<u>468,835</u>
Total assets less current liabilities		<u>517,953</u>	<u>779,101</u>
Non-current liabilities			
Loans from related companies	30	223,312	–
Borrowings – amount due after one year	33	5,560	–
Convertible notes	34	–	254,125
		<u>228,872</u>	<u>254,125</u>
Net assets		<u>289,081</u>	<u>524,976</u>
Capital and reserves			
Share capital	36	183,167	183,167
Reserves	38	105,914	341,809
Shareholders' funds		<u>289,081</u>	<u>524,976</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2003*

	Total equity <i>HK\$'000</i>
At 1 April 2002	
– as previously reported	647,334
– adjustment on adoption of the Statement of Standard Accounting Practice 12 (Revised)	(7,325)
	<u>640,009</u>
– as restated	
Exchange difference arising on translation of financial statements of operations outside Hong Kong	(322)
Share of translation reserve of an associate	(65)
	<u>(387)</u>
Amount of unrecognised loss not recognised in the income statement	
	639,622
Issue of shares	322,560
Repurchase of shares	(5,896)
Reserves released on deemed disposal/disposal of subsidiaries	538
Net loss for the period	(302,248)
	<u>654,576</u>
At 31 December 2002 and 1 January 2003	
Exchange difference arising on translation of financial statements of operations outside Hong Kong	(286)
Surplus arising from revaluation of investment property	163
Share of translation reserve of an associate	73
	<u>(50)</u>
Amount of unrecognised loss not recognised in the income statement	
	654,526
Transfer of goodwill reserve to investments in securities on reclassification of investments	9,767
Net loss for the year	(370,972)
	<u>293,321</u>
At 31 December 2003	<u><u>293,321</u></u>

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

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Cash flows from operating activities		
Loss before taxation	(373,047)	(304,153)
Adjustments for:		
Share of results of associates	114,788	33,463
Depreciation and amortisation of property, plant and equipment	24,575	18,575
Interest income	(1,150)	(10,679)
Interest expenses	22,586	11,858
Finance lease charges	2,459	850
Loss on disposal of discontinued operations	32,697	–
Loss on disposal of property, plant and equipment	28,587	2,042
Loss on disposal of associates	23,471	–
Loss on disposal of interest in a co-operative joint venture	20,000	–
Loss on disposal of investment securities	30,633	–
Loss on disposal of other investments	465	–
Impairment loss recognised in respect of investments in securities	26,974	–
Impairment loss recognised in respect of interest in an associate	31,717	–
Impairment loss recognised in respect of properties under construction	2,400	1,000
Impairment loss recognised in respect of leasehold land and buildings	301	12,281
Amortisation of goodwill arising on acquisition of subsidiaries	496	165
Surplus arising from revaluation of investment property	(7)	–
Net unrealised holding loss on other investments	2,849	733
Loss on deemed disposal/disposal of subsidiaries	–	1,712
Allowance for short term investment deposit	–	23,000
Allowance for advances to service suppliers	–	162,122
Allowance for irrecoverable trade debts	–	22,813
	<hr/>	<hr/>
Operating cash flows before movement in working capital	(9,206)	(24,218)
	<hr/>	<hr/>
Movement in working capital		
Decrease in inventories	540	254
Increase in amounts due from related companies	(1,972)	(11,989)
Increase in amounts due from associates	(7,282)	(1,267)
Increase in trade and other receivables	(46,582)	(9,153)
Decrease/(increase) in trading cash balances	747	(469)
Increase (decrease) in trade and other payables	26,950	(6,305)
(Decrease) increase in amounts due to associates	(13,354)	7,372
Increase in amounts due to related companies	1,340	4,443
	<hr/>	<hr/>
	(39,613)	(17,114)
	<hr/>	<hr/>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

		1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
	<i>Notes</i>		
Cash used in operations		(48,819)	(41,332)
Interest paid		(12,429)	(8,616)
Finance lease charges paid		(2,459)	(850)
Taxation in other jurisdictions refunded		724	99
Net cash used in operating activities		(62,983)	(50,699)
Cash flows from investing activities			
Purchase of property, plant and equipment		(23,028)	(3,489)
Purchase of other investments		(5,571)	(6,008)
Investment in an associate		(82)	(300,217)
Proceeds from disposal of property, plant and equipment		41,611	900
Disposal of discontinued operation (net of cash and cash equivalents disposed of)	39	26,911	–
Proceeds from disposal of associates		13,219	–
Proceeds from disposal of other investments		4,860	–
Repayment of loan receivables		–	10,000
Interest received		1,150	6,368
Bank deposits released		412	1,217
Long term investment deposits paid		–	(99,400)
Net cash outflow to loans advanced to certain overseas companies and individuals		(9,678)	(22,272)
Acquisition of additional interest in a subsidiary		–	(10,169)
Deemed disposal/disposal of subsidiaries (net of cash and cash equivalents disposed of)	40	–	(1,448)
Short term investment deposits refunded		–	5,000
Net cash from (used in) investing activities		49,804	(419,518)
Cash flows from financing activities			
Net cash inflow from loans from related companies		224,838	6,474
Net cash inflow from other borrowings		61,096	150,000
Repayment of bank loans and other loans		(209,909)	(139,024)
Repayment of obligations under finance leases and sale and lease back arrangements		(4,619)	(7,376)
Proceeds from issue of convertible notes		–	370,000
Proceeds from issue of new shares for cash, net of expenses of HK\$nil (1.4.2002 to 31.12.2002: HK\$2,915,000)		–	206,685
Repurchase of shares		–	(5,896)
Net cash from financing activities		71,406	580,863
Net increase in cash and cash equivalents		58,227	110,646
Cash and cash equivalents at beginning of the year/period		53,793	(56,969)
Effect of foreign exchange rate changes		(311)	116
Cash and cash equivalents at end of the year/period	43	111,709	53,793

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2003***1. GENERAL**

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. Its subsidiaries are principally engaged in the business of providing package tours, travel and other related services. The Group was also involved in the business of transportation services which was disposed of and discontinued during the year.

The financial statements for the prior period cover the nine month period ended 31 December 2002. The corresponding amounts shown for the income statement, statement of changes in equity, cash flow statement and related notes cover a nine month period from 1 April 2002 to 31 December 2002 and therefore may not be comparable with amounts shown for the current year.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”). The term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP”s) and Interpretations approved by the HKSA.

SSAP 12 (Revised) Income taxes

The Group has adopted SSAP 12 (Revised) Income taxes. The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly.

The adoption of SSAP 12 (Revised) has given rise to a goodwill of HK\$9,767,000 and a corresponding decrease in the Group’s share of net assets of associates. The acquisition of the associates took place prior to 1 April 2001 and the corresponding goodwill was written off against goodwill reserve.

In addition, the adoption of SSAP 12 (Revised) has led to a decrease in accumulated losses of HK\$3,052,000 as at 1 January 2003 (1 April 2002: HK\$2,442,000) and a corresponding increase in the Group’s share of net assets of associates. The net loss for the year ended 31 December 2003 and nine months ended 31 December 2002 have been decreased by HK\$407,000 and HK\$610,000 respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain property, plant and equipment, investment property and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

The principal accounting policies are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 April 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

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

Negative goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on the acquisition of an associate after 1 April 2001 is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries after 1 April 2001 is presented separately in the balance sheet as a deduction from assets. Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Revenue recognition

Income from tour and travel services is recognised upon the departure date of each tour. Income from other travel related services is recognised when the services are rendered.

Income from transportation services is recognised when the services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Income from disposal of investments is recognised when the risks and rewards of the ownership of the investments have been transferred.

Property, plant and equipment

Property, plant and equipment other than properties under construction are stated at cost or valuation less accumulated depreciation or amortisation and any identified impairment loss.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment other than properties under construction over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining unexpired terms of the leases
Buildings	2% or over the remaining unexpired terms of the leases, whichever the shorter
Furniture and fixtures	10% – 20%
Leasehold improvements	10% – 20%
Motor vehicles	8.33% – 20%
Office equipment and machinery	20%
Vessels	5%

Assets held under finance leases and sale and lease back arrangements are depreciated over their estimated useful lives on the same basis as owned assets.

Properties under construction are stated at cost less impairment loss. Cost includes all development expenditure and other direct costs attributable to such projects. Properties under construction are not depreciated until completion of construction. Cost on completed properties is transferred to other categories of property, plant and equipment.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

No depreciation is provided in respect of investment properties which are held under leases with unexpired terms, including the renewable period, of more than twenty years. Investment properties are stated at their open market values based on a professional valuation at the balance sheet date.

Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement.

On subsequent sale of an investment property, any revaluation surplus thereon is included in the determination of the gain or loss on disposal.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. 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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at carrying value less any identified impairment loss.

Interest in associates

An associate is an enterprise 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 its associates for the year/period. In the consolidated balance sheet, the interest in associates is stated at the Group's share of net assets of the associates less any negative goodwill on acquisition in so far as it has not already been released to income and any identified impairment loss.

The investment in an associate is included in the Company's balance sheet at cost less any identified impairment loss.

Other long term investment

Other long term investment is stated at cost less impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the terms of the investment so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity securities are classified as investment securities and other investments.

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

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year/period.

Inventories

Inventories, representing principally consumables, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year/period to the Group's defined contribution schemes.

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding principal portions of leasing commitments are shown as obligations under finance leases. The finance costs, which represent the difference between the total leasing commitments and the original principal outstanding at the inception of the leases, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Assets under sale and lease back arrangements of which the Group has been granted options to buy back the assets at pre-determined buy-back prices at the expiration of the lease periods are stated at the original carrying values of the assets in the balance sheet. The corresponding amounts received from sales of the assets are shown as liabilities under sale and lease back arrangements. The finance charges, which comprise the aggregate of the rentals payable for the use of the assets under the leases and the difference between the buy-back prices and the original sale values of the assets, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and their rentals payable are charged to the income statement on a straight line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of operations outside Hong Kong are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year/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 operation is disposed of.

4. TURNOVER

Turnover represents the amounts received and receivable for services provided to outside customers, less trade discounts and returns during the year/period. An analysis of the Group's turnover is as follows:

	1.1.2003	1.4.2002
	to	to
	31.12.2003	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Travel and related services	1,291,906	1,185,560
Transportation services	124,329	137,726
	<u>1,416,235</u>	<u>1,323,286</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

During the year, for management purposes, the Group was organised into two operating divisions – travel and related services, and transportation services. The business segment of transportation services was discontinued with effect from 31 October 2003. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

	Continuing operation	Discontinued operation		
	Travel and related services HK\$'000	Transportation services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2003				
TURNOVER				
External sales	1,291,906	124,329	–	1,416,235
Inter-segment sales	–	5,248	(5,248)	–
Total	<u>1,291,906</u>	<u>129,577</u>	<u>(5,248)</u>	<u>1,416,235</u>
Inter-segment sales are charged at prevailing market price.				
RESULTS				
Segment results	<u>17,880</u>	<u>(19,505)</u>	<u>–</u>	(1,625)
Interest income				1,150
Amortisation of goodwill arising on acquisition of subsidiaries	–	(496)	–	(496)
Surplus arising from revaluation of investment property	7	–	–	7
Impairment loss recognised in respect of investments in securities	(26,974)	–	–	(26,974)
Impairment loss recognised in respect of leasehold land and buildings	(301)	–	–	(301)
Impairment loss recognised in respect of properties under construction	(2,400)	–	–	(2,400)
Loss on disposal of investments in securities				(31,098)
Loss on disposal of property, plant and equipment	(28,419)	(168)	–	(28,587)
Loss on disposal of interest in a co-operative joint venture	(20,000)	–	–	(20,000)
Net unrealised holding loss on other investments				(2,849)
Unallocated corporate expenses				<u>(32,156)</u>
Loss from operations				(145,329)
Finance costs				(25,045)
Share of results of associates	(114,788)	–	–	(114,788)
Impairment loss recognised in respect of interest in an associate	(31,717)	–	–	(31,717)
Loss on disposal of discontinued operation	–	(32,697)	–	(32,697)
Loss on disposal of associates	(23,471)	–	–	<u>(23,471)</u>
Loss before taxation				(373,047)
Taxation credit				<u>2,075</u>
Loss before minority interests				(370,972)
Minority interests				<u>–</u>
Net loss for the year				<u><u>(370,972)</u></u>

	Continuing operation	Discontinued operation	
	Travel and related services HK\$'000	Transportation services HK\$'000	Consolidated HK\$'000
As at 31 December 2003			
ASSETS			
Segment assets	676,963	–	676,963
Interest in associates	221,467	–	221,467
Unallocated corporate assets			208,921
Consolidated total assets			1,107,351
LIABILITIES			
Segment liabilities	245,147	–	245,147
Unallocated corporate liabilities			539,105
Consolidated total liabilities			784,252
OTHER INFORMATION			
Capital additions	7,947	15,081	23,028
Depreciation and amortisation of property, plant and equipment	4,935	19,640	24,575
Loss on disposal of property, plant and equipment	28,419	168	28,587
Impairment losses recognised	29,675	–	29,675
Amortisation of goodwill arising on acquisition of subsidiaries	–	496	496

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Continuing operation	Discontinued operation		
	Travel and related services HK\$'000	Transportation services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000 (Restated)
For the period from 1 April 2002 to 31 December 2002				
TURNOVER				
External sales	1,185,560	137,726	–	1,323,286
Inter-segment sales	–	6,768	(6,768)	–
Total	<u>1,185,560</u>	<u>144,494</u>	<u>(6,768)</u>	<u>1,323,286</u>
Inter-segment sales are charged at prevailing market price.				
RESULTS				
Segment results	<u>(6,524)</u>	<u>(7,621)</u>	<u>–</u>	(14,145)
Interest income				10,679
Amortisation of goodwill arising on acquisition of subsidiaries	–	(165)	–	(165)
Allowance for advances to service suppliers	(162,122)	–	–	(162,122)
Allowance for short term investment deposit	(23,000)	–	–	(23,000)
Impairment loss recognised in respect of leasehold land and buildings	(12,281)	–	–	(12,281)
Impairment loss recognised in respect of properties under construction	(1,000)	–	–	(1,000)
Allowance for irrecoverable trade debts	(22,813)	–	–	(22,813)
Unrealised holding loss on other investments				(733)
Unallocated corporate expenses				<u>(30,690)</u>
Loss from operations				(256,270)
Finance costs				(12,708)
Share of results of associates	(33,463)	–	–	(33,463)
Loss on deemed disposal/disposal of subsidiaries	(1,712)	–	–	<u>(1,712)</u>
Loss before taxation				(304,153)
Taxation credit				<u>669</u>
Loss before minority interests				(303,484)
Minority interests				<u>1,236</u>
Net loss for the period				<u><u>(302,248)</u></u>

	Continuing operation	Discontinued operation	
	Travel and related services HK\$'000	Transportation services HK\$'000	Consolidated HK\$'000 (Restated)
As at 31 December 2002			
ASSETS			
Segment assets	669,625	137,481	807,106
Interest in associates	489,357	–	489,357
Unallocated corporate assets			134,851
Consolidated total assets			1,431,314
LIABILITIES			
Segment liabilities	257,167	21,550	278,717
Unallocated corporate liabilities			498,021
Consolidated total liabilities			776,738
OTHER INFORMATION			
Capital additions	14,576	14,300	28,876
Depreciation and amortisation of property, plant and equipment	5,474	13,101	18,575
Loss on disposal of property, plant and equipment	1,355	687	2,042
Impairment losses recognised	13,281	–	13,281
Amortisation of goodwill arising on acquisition of subsidiaries	–	165	165

Geographical segments

No geographical segment information in respect of the Group's operations has been presented as over 90% of the Group's operations was derived from Hong Kong.

The analysis of carrying amount of segment assets and additions to property, plant and equipment and intangible assets analysed by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2003	2002	1.1.2003 to 31.12.2003	1.4.2002 to 31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i>	<i>HK\$'000</i>
The People's Republic of China (excluding Hong Kong) (the "PRC")	248,358	345,662	—	—
Hong Kong	300,522	304,002	23,028	28,876
South-east Asia	180,433	144,927	—	—
Japan and Korea	155,771	146,316	—	—
Others	764	290	—	—
	<u>885,848</u>	<u>941,197</u>	<u>23,028</u>	<u>28,876</u>

6. OTHER OPERATING INCOME

1.1.2003 to 31.12.2003	1.4.2002 to 31.12.2002
<i>HK\$'000</i>	<i>HK\$'000</i>

An analysis of the Group's other operating income is as follows:

Exchange gain	335	168
Interest income	1,150	10,679
Net income on sale of computer program source code	3,000	—
Recovery of overseas sales tax	8,242	—
Sundry income	9,809	6,078
	<u>22,536</u>	<u>16,925</u>

7. LOSS FROM OPERATIONS

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	1,792	1,598
Depreciation and amortisation on:		
Owned assets	19,689	14,622
Assets held under finance leases and sale and lease back arrangements	4,886	3,953
Information technique development expenses	1,136	844
Loss on disposal of property, plant and equipment	28,587	2,042
Minimum lease payments paid in respect of rented premises	12,459	19,850
Staff costs*	80,194	125,272
and after crediting:		
Rental income from investment property less negligible outgoings	<u>109</u>	<u>82</u>

* The amount includes retirement benefit scheme contributions (net of forfeiture) of HK\$1,879,000 (1.4.2002 to 31.12.2002: HK\$4,615,000).

8. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Emoluments to executive directors		
Fees	–	–
Salaries and other benefits (<i>Note</i>)	1,500	4,513
Compensation for loss of office	–	2,600
Retirement benefit scheme contributions	97	389
	<u>1,597</u>	<u>7,502</u>
Emoluments to non-executive directors		
Fees	200	–
Salaries and other benefits (<i>Note</i>)	1,980	1,286
Retirement benefit scheme contributions	210	137
	<u>2,390</u>	<u>1,423</u>
	<u>3,987</u>	<u>8,925</u>

Note: The directors' salaries and other benefits include the operating lease rentals amounting to HK\$nil (1.4.2002 to 31.12.2002: HK\$1,401,000) in respect of rented premises provided to directors. The amounts were also included in the minimum lease payments paid in respect of rented premises under note 7 above.

	Number of director(s)	
	1.1.2003	1.4.2002
	to	to
	31.12.2003	31.12.2002
Emoluments of the directors were within the following bands:		
Nil – HK\$1,000,000	13	9
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,500,001 – HK\$4,000,000	–	1
	<u>13</u>	<u>12</u>

Details of emoluments paid by the Group to the five highest paid individuals (including directors, details of whose emoluments are set out above) are as follows:

	1.1.2003	1.4.2002
	to	to
	31.12.2003	31.12.2002
	HK\$'000	HK\$'000
Salaries and other benefits	5,927	8,479
Retirement benefit scheme contributions	485	601
	<u>6,412</u>	<u>9,080</u>

	1.1.2003	1.4.2002
	to	to
	31.12.2003	31.12.2002
Emoluments of the five highest paid individuals were within the following bands:		
Nil – HK\$1,000,000	3	2
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,500,001 – HK\$4,000,000	–	1
	<u>3</u>	<u>3</u>
Number of directors	2	3
Number of employees	3	2
	<u>5</u>	<u>5</u>

9. FINANCE COSTS

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Finance lease charges	2,459	850
Interest on borrowings wholly repayable within five years	22,586	11,858
	<u>25,045</u>	<u>12,708</u>
Total finance costs	<u><u>25,045</u></u>	<u><u>12,708</u></u>

10. DISCONTINUED OPERATION

On 25 October 2003, the Group entered into a sale and purchase agreement to dispose of its then subsidiary, Trans-Island Limousine Service Limited and its subsidiaries ("Trans-Island Group") which carried out all of the Group's transportation services. The sale consideration will be determined with reference to the audited completion account of Trans-Island Group as at 31 October 2003. As at the date of this report, the audit of completion account has not been completed. Accordingly, the sale consideration of the transaction has not yet been determined, against which HK\$44,146,000 has been received. Based on the completion account prepared by the management of Trans-Island Group, HK\$36,131,000 was treated as the sale consideration of this transaction. The directors consider that there will not be any material adjustments to the completion account prepared by the management of Trans-Island Group. The disposal was completed on 31 October 2003, when the control of Trans-Island Group was passed to the purchaser.

The results of the transportation services for the period from 1 January 2003 to 31 October 2003, which have been included in the consolidated financial statements, were as follows:

	1.1.2003 to 31.10.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Turnover	124,329	137,726
Direct operating costs	(99,712)	(123,684)
Other operating income	1,403	3,113
Administrative expenses	(45,687)	(24,744)
Finance costs	(2,337)	(1,655)
	<u>(22,004)</u>	<u>(9,244)</u>
Loss before taxation	(22,004)	(9,244)
Taxation credit	1,718	460
	<u>1,718</u>	<u>460</u>
Net loss for the period	<u><u>(20,286)</u></u>	<u><u>(8,784)</u></u>

During the year, Trans-Island Group contributed HK\$26,547,000 (1.4.2002 to 31.12.2002: HK\$16,288,000) to the Group's net operating cash flows, paid HK\$11,644,000 (1.4.2002 to 31.12.2002: HK\$778,000) in respect of investing activities, and paid HK\$11,205,000 (1.4.2002 to 31.12.2002: HK\$13,938,000) in respect of financing activities.

The carrying amounts of assets and liabilities of Trans-Island Group at the date of disposal are disclosed in note 39.

A loss of HK\$32,697,000 arose on the disposal of Trans-Island Group, being the proceeds of disposal less the carrying amount of the net assets of Trans-Island Group and attributable unamortised goodwill.

11. TAXATION CREDIT

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000 (Restated)
Taxation in other jurisdictions		
Current year/period	–	11
Overprovision in prior years	–	(19)
Deferred taxation (<i>note 35</i>)	<u>(1,718)</u>	<u>(460)</u>
Taxation attributable to the Company and its subsidiaries	<u>(1,718)</u>	<u>(468)</u>
Share of taxation attributable to associates		
Hong Kong	–	270
Other jurisdictions	<u>(357)</u>	<u>(471)</u>
	<u>(357)</u>	<u>(201)</u>
	<u><u>(2,075)</u></u>	<u><u>(669)</u></u>

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit in the year/period.

No provision for overseas taxation has been made as the Group has no taxable profit during the year in other jurisdictions and taxation for other jurisdictions for the period from 1 April 2002 to 31 December 2002 was calculated at the rates prevailing in the relevant jurisdictions.

No charge or credit arose on the loss on discontinuance of the transportation services during the year.

Taxation for the year/period can be reconciled to the loss before taxation per the consolidated income statement as follows:

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Loss before taxation	<u>(373,047)</u>	<u>(304,153)</u>
Tax at the domestic income tax rate of 17.5% (1.4.2002 to 31.12.2002: 16%)	(65,283)	(48,664)
Tax effect of share of results of associates	19,495	5,133
Tax effect of expenses that are not deductible in determining taxable profit	14,614	11,866
Tax effect of income that is not taxable in determining taxable profit	(3,848)	(2,415)
Tax effect of tax losses not recognised	33,901	33,443
Tax effect of tax losses utilised but not previously recognised	(2,023)	(248)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	755	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	314	235
Overprovision in prior years	<u>–</u>	<u>(19)</u>
Taxation credit for the year/period	<u>(2,075)</u>	<u>(669)</u>

12. DIVIDENDS

No dividends were declared by the Company for the year ended 31 December 2003 (1.4.2002 to 31.12.2002: nil).

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$370,972,000 (1.4.2002 to 31.12.2002: HK\$302,248,000) and on 18,316,732,770 shares (1.4.2002 to 31.12.2002: the weighted average of 16,509,000,000 shares) in issue during the year/period.

The effect of prior period adjustments on loss per share for the period from 1 April 2002 to 31 December 2002 is immaterial.

No diluted loss per share has been presented as the conversion of the convertible notes and shares issuable under the subscription agreement dated 31 May 2002 as mentioned in note 36 would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Properties under construction <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Office equipment and machinery <i>HK\$'000</i>	Vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
COST OR VALUATION								
At 1 January 2003	311,341	46,728	3,129	5,475	309,527	23,679	7,181	707,060
Currency realignment	–	–	49	12	–	26	–	87
Additions	–	–	889	4,747	15,682	1,710	–	23,028
Disposals	(230,763)	–	(219)	(1,642)	(62,084)	(301)	(714)	(295,723)
Disposal of subsidiaries	(425)	–	(487)	–	(262,108)	(9,466)	–	(272,486)
At 31 December 2003	80,153	46,728	3,361	8,592	1,017	15,648	6,467	161,966
Comprising								
At cost	73,153	46,728	3,361	8,592	1,017	15,648	6,467	154,966
At valuation	7,000	–	–	–	–	–	–	7,000
	80,153	46,728	3,361	8,592	1,017	15,648	6,467	161,966
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1 January 2003	224,461	5,728	2,193	3,284	211,033	16,783	5,967	469,449
Currency realignment	–	–	33	12	–	17	–	62
Provided for the year	890	–	331	1,460	18,580	3,132	182	24,575
Impairment loss recognised for the year	301	2,400	–	–	–	–	–	2,701
Eliminated on disposals	(166,556)	–	(145)	(813)	(57,161)	(176)	(674)	(225,525)
Eliminated on disposal of subsidiaries	(157)	–	(325)	–	(171,869)	(7,158)	–	(179,509)
At 31 December 2003	58,939	8,128	2,087	3,943	583	12,598	5,475	91,753
NET BOOK VALUES								
At 31 December 2003	21,214	38,600	1,274	4,649	434	3,050	992	70,213
At 31 December 2002	86,880	41,000	936	2,191	98,494	6,896	1,214	237,611

An analysis of the properties of the Group held at the balance sheet date is as follows:

	Leasehold land and buildings		Properties under construction	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Long leases in Hong Kong	10,237	76,100	–	–
Medium term leases in Hong Kong	10,977	10,780	–	–
Medium term leases outside Hong Kong	–	–	38,600	41,000
	<u>21,214</u>	<u>86,880</u>	<u>38,600</u>	<u>41,000</u>

During the year, the directors reviewed the carrying amounts of its property, plant and equipment and identified that the value of properties under construction was impaired. Accordingly, the carrying amount of properties under construction was reduced to its recoverable amount, which was determined with reference to the independent professional valuation on an open market value as at 31 December 2003.

Subsequent to the balance sheet date, the Group entered into sale and purchase agreements to dispose of two properties in Hong Kong. One of the transactions was completed on 31 March 2004 and the other transaction will be completed on or before 31 May 2004. An aggregate loss of approximately HK\$301,000 will be recorded upon completion. Accordingly, an equivalent amount was written off against the carrying amounts of the properties as at the balance sheet date to reflect their recoverable amounts.

Details of property, plant and equipment which are stated at valuation at the balance sheet date are as follows:

	Leasehold land and buildings	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
At valuation		
– 31 July 1997	4,800	4,800
– 31 March 1998	<u>2,200</u>	<u>2,200</u>
	7,000	7,000
Less: Accumulated depreciation, amortisation and impairment	<u>(4,588)</u>	<u>(4,548)</u>
Net book value	<u>2,412</u>	<u>2,452</u>

The valuations at 31 July 1997 and 31 March 1998 represented the carrying values (equivalent to their approximately fair value) of the leasehold land and buildings at the time when they ceased to be classified as investment properties. Had the leasehold properties been carried at their historical cost less accumulated depreciation, amortisation and impairment loss, the carrying value of the leasehold properties would have been stated at HK\$2,412,000 (2002: HK\$2,452,000).

The net book value of motor vehicles and office equipment and machinery of the Group held under finance leases and sale and lease back arrangements at 31 December 2003 was HK\$ nil (2002: approximately HK\$33,155,000) and HK\$ nil (2002: HK\$2,023,000) respectively.

	Furniture and fixtures <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Office equipment and machinery <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
COST					
At 1 January 2003	698	401	–	460	1,559
Additions	866	–	446	7	1,319
Transfer from a subsidiary	–	–	110	–	110
Disposals	(258)	(401)	–	–	(659)
At 31 December 2003	1,306	–	556	467	2,329
DEPRECIATION					
At 1 January 2003	141	55	–	97	293
Provided for the year	240	–	22	92	354
Transfer from a subsidiary	–	–	110	–	110
Eliminated on disposals	(88)	(55)	–	–	(143)
At 31 December 2003	293	–	132	189	614
NET BOOK VALUES					
At 31 December 2003	1,013	–	424	278	1,715
At 31 December 2002	557	346	–	363	1,266

The net book value of office equipment and machinery of the Company held under a finance lease at 31 December 2003 was HK\$nil (2002: approximately HK\$65,000).

15. INVESTMENT PROPERTY

	THE GROUP	
	1.1.2003 to 31.12.2003 <i>HK\$'000</i>	1.4.2002 to 31.12.2002 <i>HK\$'000</i>
At beginning of the year/period	1,230	1,230
Surplus on revaluation	170	–
At end of the year/period	1,400	1,230

The investment property of the Group is freehold and held outside Hong Kong.

The investment property was revalued at 31 December 2003 by a firm of independent professional property valuers, Norton Appraisals Limited, on an open market value basis at HK\$1,400,000. The valuation gave rise to a revaluation increase of HK\$170,000, of which HK\$7,000 and HK\$163,000 has been credited to the income statement and the investment properties valuation reserve respectively.

16. INVESTMENTS IN SUBSIDIARIES

The Company
2003 & 2002
HK\$'000

Unlisted shares	178,000
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The carrying value of the unlisted shares is based on the carrying amounts of the underlying net assets of the subsidiaries at the time they became members of the Group under the group reorganisation in September 1997.

Particulars of the principal subsidiaries as at 31 December 2003 are set out in note 51.

17. INTEREST IN ASSOCIATES

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		
Share of net assets	253,184	548,275	–	–
Negative goodwill arising from acquisition of an associate (<i>note 18</i>)	–	(58,918)	–	–
Unlisted shares, at cost	–	–	–	500
	253,184	489,357	–	500
Impairment loss recognised	(31,717)	–	–	–
	221,467	489,357	–	500

Particulars of the Group's associates as at 31 December 2003 are as follows:

Name of associate	Place of incorporation and operation	Issued and paid up share capital/ registered capital '000	Proportion of issued/registered capital held by the Group		Principal activities
			2003	2002	
Ananda Travel Service (Aust.) Pty. Limited	Australia	A\$400	40%	40%	Travel and related services
Apex Quality Group Limited ("Apex")	British Virgin Islands ("BVI")/ Hong Kong	HK\$43,276	49.6%	–	Investment holding
CYTS Wing On Travel Service Company Limited	Hong Kong	HK\$2,000	50%	50%	Travel and related services
Guilin Osmanthus Hotel	PRC	US\$3,489	<i>Note (a)</i>	49.5%	Operation of a hotel

Name of associate	Place of incorporation and operation	Issued and paid up share capital/ registered capital '000	Proportion of issued/registered capital held by the Group		Principal activities
			2003	2002	
Heilongjiang Ananda Entertainment Company Limited ("Heilongjiang Ananda") <i>Note (b)</i>	PRC	RMB283,140	50%	50%	Operation of a hotel and an entertainment resort complex and development of a residential and commercial complex
Rosedale Hotel Group Limited ("Rosedale") <i>Note (c)</i>	Bermuda/ Hong Kong	HK\$432,757*	–	49.3%	Investment holding
Wing On International Travel Service Ltd. Guangdong	PRC	RMB5,000	49%	49%	Travel and related services
Wing On JAS Nice Wing Limited #	Hong Kong	HK\$1,000	50%**	50%**	Travel and related services

* Issued and paid up share capital as at 31 December 2002

** Directly held by the Company

In liquidation since February 2004

Notes:

- (a) During the year, the directors considered that following the change of the management of the Company, the Group cannot exercise significant influence on the financial and operating policies of an associate, Guilin Osmanthus Hotel, and accordingly, resolved to classify the carrying amount of this investment amounting to HK\$26,974,000 as an investment in securities as at the balance sheet date.
- (b) During the year, the directors reviewed the carrying amounts of interest in associates and considered that the recoverable amount of Heilongjiang Ananda is minimal due to its continuing operating loss. Accordingly, an amount of HK\$31,717,000 was recognised as impairment loss to write off the carrying value of this associate in the financial statements.
- (c) On 9 July 2003, the Company entered into a sale and purchase agreement with an independent third party to dispose of its holding of 49.3% interest in an associate, Rosedale for a consideration of HK\$88 million. Under the agreement, the purchaser was obliged to pay a total of HK\$20,000,000 on or before the completion of the sale, and the balance is payable within 12 months from the date of completion, against which 136,666,666 shares in Rosedale (name changed to China Velocity Group Limited on 26 January 2004) are pledged to the Company.

The completion of the disposal involved a number of transactions. Among them, Rosedale would undergo a group reorganisation, under which Rosedale continues as a public listed company concentrating on business other than hotel and leisure-related businesses; Apex, a former subsidiary of Rosedale, together with its subsidiaries would hold all assets and liabilities of Rosedale and its subsidiaries in relation to the hotel and leisure-related businesses; and shares of Apex would be distributed to shareholders of Rosedale by way of distribution in specie. Details of the group reorganisation are set out in the circular to shareholders of the Company on 31 October 2003.

In connection with the disposal of Rosedale, the Group made an unconditional cash offer for 77,920,268.1 Apex shares held by the Apex shareholders other than those held by China Strategic Holdings Limited and their respective associates and parties acting in concert with any of them. The offer period was from 19 December 2003 to 9 January 2004. As at the date of the balance sheet, holders of 800,194 shares, representing approximately 0.3% of the share capital of Apex, accepted and the Group then held 49.6% interests in Apex.

The disposal of Rosedale was completed on 16 December 2003.

Other than Wing On JAS Nice Wing Limited and Ananda Travel Services (Aust) Pty. Limited whose financial statements end on 31 March, the financial statements of all other associates end on 31 December. The Group's share of their results and net assets under the equity method is based on their financial statements made to 31 December 2003.

Included in the interest in associates at 31 December 2003 are the interest in Apex and Heilongjiang Ananda. Extracts from the financial statements prepared in accounting principles generally accepted in Hong Kong of Apex for the period from 13 December 2003 to 31 December 2003 and Heilongjiang Ananda for the year ended 31 December 2003 and 2002 are as follows:

Apex	2003 <i>HK\$'000</i>
Financial position	
Non-current assets	1,592,960
Current assets	84,038
Current liabilities	(143,811)
Net current liabilities	(59,773)
Total assets less current liabilities	1,533,187
Non-current liabilities	(1,018,106)
Minority interests	(72,058)
Net assets	443,023
Share of net assets attributable to the Group	219,739
Results for the period	
Turnover	7,857
Net loss for the period	(12,985)
Net loss for the period attributable to the Group	(6,441)

Heilongjiang Ananda	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Financial position		
Non-current assets	876,215	901,714
Current assets	32,119	26,632
Current liabilities	(844,900)	(812,074)
Net current liabilities	(812,781)	(785,442)
Net assets	63,434	116,272
Share of net assets attributable to the Group	31,717	58,136
Impairment loss recognised	(31,717)	–
	–	58,136
Results for the year		
Turnover	53,388	56,223
Net loss for the year	(52,722)	(60,430)
Net loss for the year attributable to the Group	(26,361)	(30,215)

In addition, included in the Group's share of associates was share of results of Rosedale. The financial statements of Rosedale during the period from 1 January 2003 to 16 December 2003, the date of completion of disposal, prepared in accounting principles generally accepted in Hong Kong, are as follows:

Rosedale	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Results for the period		
Turnover	131,303	181,692
Net loss for the period	(165,871)	(99,810)
Net loss for the period attributable to the Group	(81,774)	(2,447)

As Rosedale was disposed in December 2003, no financial position as at 31 December 2003 was presented.

The shares of Rosedale are listed on the Stock Exchange and the then market value of the shares held by the Group as at 31 December 2002 was approximately HK\$273,333,000.

18. NEGATIVE GOODWILL ARISING FROM ACQUISITION OF AN ASSOCIATE

	The Group	
	1.1.2003	1.4.2002
	to	to
	31.12.2003	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
NEGATIVE GOODWILL		
Balance at beginning of the year/period	59,043	–
Arising from acquisition of an associate during the year/period	–	59,043
Released on disposal	(59,043)	–
	<hr/>	<hr/>
Balance at end of the year/period	–	59,043
	<hr/>	<hr/>
REALISATION		
Balance at beginning of the year/period	125	–
Released to the income statement during the year/period	1,350	125
Released on disposal	(1,475)	–
	<hr/>	<hr/>
Balance at end of the year/period	–	125
	<hr/>	<hr/>
CARRYING AMOUNT		
At end of the year/period	<hr/> <hr/>	<hr/> <hr/> 58,918

Negative goodwill was recognised to the income statement over 40 years, which was determined based on the remaining average useful life of identifiable depreciable assets acquired.

19. OTHER LONG TERM INVESTMENT**The Group and the Company**

The other long term investment represents the contribution paid to a joint venture partner in 2001 for a joint development of a piece of land in Chengdu, the PRC, into a tourist attraction. On 11 December 2002, the Group entered into an agreement with the joint venture partner to withdraw from the project. Under the agreement, the joint venture partner will transfer the titles of a total of approximately 3,000 square meters of commercial areas and car parking spaces in a commercial building in Chengdu, the PRC, to the Group. The amount to be settled through this arrangement will be based on the professional valuation of the properties. Up to the date of this report, the transaction is still not yet completed. The directors are of the opinion that the value of property interests to be transferred will cover the investment cost paid and accordingly no provision for impairment loss is necessary.

20. LONG TERM INVESTMENT DEPOSITS

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits for acquisition of investment (<i>Note</i>)	60,000	60,000	60,000	60,000
Disposal	(60,000)	–	(60,000)	–
	<u>–</u>	<u>60,000</u>	<u>–</u>	<u>60,000</u>

Note:

The deposits represent the deposits paid for acquisition of 100% interest in a co-operative joint venture which will develop and operate a hotel in Guangdong, the PRC. During the year, the Group entered into an agreement to dispose of two-third of its rights to the intended interests in the co-operative joint venture for HK\$40,000,000 but the completion thereof has not yet taken place. After the aforesaid agreement, the directors considered it is not viable to carry out the investment to avoid further substantial commitments. The Group then entered into another agreement with the aforesaid purchaser to dispose of the remaining rights and entire commitments of the Group in the said co-operative venture (which together with the aforesaid partial interest disposed of constitute the Group's entire interests in the co-operative joint venture in the acquisition agreement) to the purchaser at a nominal consideration. The loss arising therefrom is classified as loss on disposal of interest in a co-operative joint venture.

21. INVESTMENTS IN SECURITIES

The Group

	Investment securities		Other investments		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities						
Unlisted shares, at cost	126,232	22,626	–	–	126,232	22,626
Listed shares in Hong Kong	–	–	2,847	5,450	2,847	5,450
	<u>126,232</u>	<u>22,626</u>	<u>2,847</u>	<u>5,450</u>	<u>129,079</u>	<u>28,076</u>
Impairment loss recognised	(26,974)	–	–	–	(26,974)	–
	<u>99,258</u>	<u>22,626</u>	<u>2,847</u>	<u>5,450</u>	<u>102,105</u>	<u>28,076</u>
Market value of listed shares	<u>–</u>	<u>–</u>	<u>2,847</u>	<u>5,450</u>	<u>2,847</u>	<u>5,450</u>
Carrying amount analysed for reporting purposes as:						
Non-current	99,258	22,626	–	–	99,258	22,626
Current	–	–	2,847	5,450	2,847	5,450
	<u>99,258</u>	<u>22,626</u>	<u>2,847</u>	<u>5,450</u>	<u>102,105</u>	<u>28,076</u>

Particulars of the Group's investment securities as at 31 December 2003 are as follows:

Name of company	Place of incorporation and operation	Issued and paid up share capital/ registered capital '000	Proportion of issued/registered capital held by the subsidiaries		Interest attributable to the Group		Principal activities
			2003	2002	2003	2002	
Guilin Osmanthus Hotel (see Note 17)	PRC	US\$3,489	49.5%	49.5%	49.5%	49.5%	Operation of a hotel
			Note (a)				
Guangxi Guijia Property Management Company Limited	PRC	US\$8,021	26%	–	18.2%	–	Operation of a hotel and leisure-related businesses
			Note (b)				
Jian Shen Co. Ltd.	BVI	US\$0.1	–	19%	–	19%	Investment holding
King Fu Investment Holdings Ltd.	BVI	US\$50	–	19%	–	19%	Investment holding

Notes:

- (a) During the year, the directors reviewed the carrying amounts of investments in securities and considered that it is unlikely to recover the interest in Guilin Osmanthus Hotel and the present value of the estimated future cash flows expected to arise from the investment is minimal. Accordingly, impairment loss of HK\$26,974,000 was recognised in the financial statements to write down the carrying amount of the investment.
- (b) Though a subsidiary of the Group holds a 26% interest in this investee company, the directors considered that the Group cannot exercise significant influence on the financial and operating policies of the investee company and accordingly, it is classified as an investment in securities.

22. GOODWILL

	THE GROUP	
	1.1.2003	1.4.2002
	to	to
	31.12.2003	31.12.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
COST		
At beginning of the year/period	13,232	59,807
Arising from acquisition during the year/period	–	13,232
Eliminated on disposal of a subsidiary	(13,232)	(59,807)
	<hr/>	<hr/>
At end of the year/period	–	13,232
	<hr/>	<hr/>
AMORTISATION AND IMPAIRMENT		
At beginning of the year/period	165	59,807
Charge for the year/period	496	165
Eliminated on disposal of a subsidiary	(661)	(59,807)
	<hr/>	<hr/>
At end of the year/period	–	165
	<hr/>	<hr/>
CARRYING AMOUNT		
At end of the year/period	<hr/> <hr/> –	<hr/> <hr/> 13,067

The amortisation period adopted for the goodwill was 20 years.

23. INVENTORIES**The Group**

At the balance sheet date, all inventories were carried at cost. The inventories represent principally consumables which are to be utilised in the ordinary course of operations. The amount recognised as an expense in the income statement during the year/period was insignificant.

24. AMOUNTS DUE FROM RELATED COMPANIES**The Group and the Company**

The balances represent the aggregate amounts due from related parties. Certain directors of the Company are also directors of and/or have beneficial interests in these companies. The amounts are unsecured and interest free. The balances as at 31 December 2003 were principally trading balances and those at 31 December 2002 also included prepayments in respect of the land operating costs.

During the period from 1 April 2002 to 31 December 2002, the directors reviewed the amounts due from companies controlled by former executive directors. The directors considered that the recoverability of such amounts was remote and accordingly, allowance was made in the financial statements.

25. AMOUNTS DUE FROM (TO) ASSOCIATES**The Group and the Company**

The amounts due from (to) associates are unsecured, interest free and have no fixed terms of repayment.

26. TRADE AND OTHER RECEIVABLES**The Group**

Included in trade and other receivables are trade receivables of HK\$7,029,000 (2002: HK\$26,579,000) and the aged analysis of the trade receivables at the reporting dates is as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 30 days	2,617	11,858
31 – 60 days	1,573	7,816
61 – 90 days	815	2,569
Over 90 days	2,024	4,336
	<u>7,029</u>	<u>26,579</u>

The Group allows an average credit period of 60 days to local customers and 90 days to overseas customers.

During the period from 1 April 2002 to 31 December 2002, the directors reviewed the advance cost payments to certain land operators and considered that their recoverability was remote. Accordingly, the amounts were fully provided for in the financial statements.

27. LOAN RECEIVABLES

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Loan to land operator (<i>Note a</i>)	23,000	23,000	–	–
Loan to certain overseas companies and individuals (<i>Note b</i>)	31,950	22,272	31,950	22,272
Loan to the property purchaser (<i>Note c</i>)	–	77,200	–	–
	<u>54,950</u>	<u>122,472</u>	<u>31,950</u>	<u>22,272</u>

Notes:

- (a) The loan to land operator represents an advance made to one of the Group's land operators for the designated purpose of purchase of coaches. The amount is secured, bears interest at a rate of 10% per annum on the principal amount over a period of thirty months and should be repayable by thirty equal monthly instalments commencing August 2000. On 23 July 2002, the Group entered into an agreement with the land operator to reschedule the terms of repayment. Under the terms of that agreement, the loan should be repaid in full on or before 31 March 2003. Pursuant to supplemental agreements thereafter, the repayment date of the loan is extended to 31 December 2004.

- (b) During the year/period, the Group provided loan facilities to certain overseas companies and individuals to earn interest. The amounts are unsecured, carrying interest at market rates and repayable within one year.
- (c) The loan to the property purchaser arose from the disposal by the Group of its 81% interests in two subsidiaries during the year ended 31 March 2002. During the year, the Group disposed of the receivable together with the remaining interests in these investments amounting to HK\$77,200,000 and HK\$22,913,000 (including HK\$287,000 receivable from the investee companies) respectively to exchange for a 70% interest in an investment company which holds a 26% interest in a PRC joint venture engaged in the operation of a hotel and leisure-related businesses.

28. TRADING CASH BALANCES

The Group

The amounts represent foreign currencies held for money exchange purposes.

29. TRADE AND OTHER PAYABLES

The Group

Included in trade and other payables are trade payables of HK\$77,121,000 (2002: HK\$81,669,000) and the aged analysis of the trade payables at the reporting dates is as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 30 days	44,715	37,664
31 – 60 days	15,687	18,117
61 – 90 days	9,593	12,265
Over 90 days	7,126	13,623
	<u>77,121</u>	<u>81,669</u>

30. LOANS FROM RELATED COMPANIES

Certain directors of the Company are also directors of and/or have beneficial interests in those companies. The loans are unsecured, bear interest at market rates and with the terms of repayment as follows:

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts repayable after 1 year but within 2 years	223,312	–	223,312	–
Amounts repayable within 1 year	8,000	6,474	–	475
	<u>231,312</u>	<u>6,474</u>	<u>223,312</u>	<u>475</u>

31. AMOUNTS DUE TO RELATED COMPANIES

The Group and the Company

The balances represent principally trading balances including trade payables and loan interest payable, which are unsecured, interest free and repayable on demand.

32. OBLIGATIONS UNDER FINANCE LEASES AND SALE AND LEASE BACK ARRANGEMENTS

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group				
Amounts payable under finance leases and sale and lease back arrangements				
Within one year	–	10,167	–	8,764
Between one to two years	–	7,835	–	7,087
Between two to five years	–	7,638	–	7,297
	–	25,640	–	23,148
<i>Less:</i> Future finance charges	–	(2,492)	–	–
Present value of lease obligations	<u>–</u>	<u>23,148</u>	–	23,148
<i>Less:</i> Amount due within one year shown under current liabilities			–	(8,764)
Amount due after one year			<u>–</u>	<u>14,384</u>

The Group entered into finance leases to acquire certain of its property, plant and equipment. The terms of the finance leases ranged from 2 to 4 years and the average effective borrowing rate was 8.5% (8.5% per annum for the period from 1 April 2002 to 31 December 2002). Interest rate was fixed at the contract date. The leases were on a fixed repayment basis and no arrangement was entered into for contingent rental payments. The Group's obligations under the finance leases were secured by the lessors' charge over the leased assets. There were no new finance leases entered into by the Group during the year.

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company				
Amounts payable under a finance lease				
Within one year	–	24	–	21
<i>Less:</i> Future finance charges	–	(3)	–	–
Present value of lease obligations	<u>–</u>	<u>21</u>	–	21
<i>Less:</i> Amount due within one year shown under current liabilities			–	(21)
Amount due after one year			<u>–</u>	<u>–</u>

The term of the outstanding finance lease was two years and the effective borrowing rate was 10.6% per annum. Interest rate was fixed at the contract date. The lease was on a fixed repayment basis and no arrangement was entered into for contingent rental payments. The Company's obligations under the finance lease was secured by the lessor's charge over the leased assets. There were no new finance leases entered into by the Company during the year.

33. BORROWINGS

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	921	48,446	–	–
Bank overdrafts	–	7,717	–	–
Other loans	33,560	150,000	33,560	120,000
	<u>34,481</u>	<u>206,163</u>	<u>33,560</u>	<u>120,000</u>
<i>Less: Amount due within one year shown under current liabilities</i>	<u>(28,230)</u>	<u>(184,474)</u>	<u>(28,000)</u>	<u>(120,000)</u>
Amount due after one year	<u>6,251</u>	<u>21,689</u>	<u>5,560</u>	<u>–</u>
Secured	921	121,046	–	100,000
Unsecured (<i>Note</i>)	33,560	85,117	33,560	20,000
	<u>34,481</u>	<u>206,163</u>	<u>33,560</u>	<u>120,000</u>
Borrowings are repayable as follows:				
Within one year or on demand	28,230	184,474	28,000	120,000
Between one to two years	6,251	11,579	5,560	–
Between two to five years	–	10,110	–	–
	<u>34,481</u>	<u>206,163</u>	<u>33,560</u>	<u>120,000</u>

Note: Included in unsecured other loans of the Group are HK\$15,000,000 which are secured on assets provided by a related company (*Note* 50 (c)).

34. CONVERTIBLE NOTES

The Group and the Company

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Convertible notes	254,125	370,000
<i>Less: Conversion into shares</i>	<u>–</u>	<u>(115,875)</u>
	<u>254,125</u>	<u>254,125</u>

During the period from 1 April 2002 to 31 December 2002, the Company issued convertible notes amounting to HK\$370,000,000. The convertible notes carry interest at 2% per annum and are repayable within two years. The holders of the convertible notes have the right to convert on any business day the convertible notes into new shares of the Company at any time from time to time during a period of two years from the date of issues of the convertible notes, at an initial conversion price of HK\$0.032 per share, subject to adjustments. Upon full conversion of the outstanding convertible notes at the balance sheet dates, a total of 7,941,395,000 shares of the Company would be issued.

The outstanding convertible notes were to be repaid on 19 April 2004. Accordingly, the outstanding amount is classified under current liabilities.

35. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior accounting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
At 1 April 2002	12,943	(4,418)	–	8,525
Charge (credit) to income for the period	132	(592)	–	(460)
Released on deemed disposal of a subsidiary	(13)	(2)	–	(15)
At 31 December 2002 and 1 January 2003	13,062	(5,012)	–	8,050
Credit to income for the year	(106)	(2,133)	(234)	(2,473)
Effect of change in tax rate – charge (credit) to income for the year	1,225	(470)	–	755
Released on disposal of subsidiaries	(14,181)	7,615	234	(6,332)
At 31 December 2003	–	–	–	–

For purpose of the balance sheet presentation, the above deferred tax assets and liabilities were offset.

At 31 December 2003, the Group has unused tax losses of HK\$555,159,000 (2002: HK\$470,470,000) available for offset against future profits. A deferred tax asset has been recognised for the year ended 31 December 2003 in respect of nil (1.4.2002 to 31.12.2002: HK\$31,325,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The losses arising from overseas subsidiaries are immaterial, which will expire after a specific period of time, other unrecognised tax losses may be carried forward indefinitely.

36. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
<i>Authorised</i>		
Balance as at 1 April 2002	20,000,000,000	200,000
Increased on 10 April 2002 (<i>Note a</i>)	30,000,000,000	300,000
	<u>50,000,000,000</u>	<u>500,000</u>
Balance as at 31 December 2002 and at 31 December 2003	<u>50,000,000,000</u>	<u>500,000</u>
<i>Issued and fully paid</i>		
Balance as at 1 April 2002	9,081,317,770	90,813
Issued on 19 April 2002 (<i>Note b</i>)	4,800,000,000	48,000
Issued to strategic partners (<i>Note c</i>)	1,000,000,000	10,000
Conversion into shares from convertible notes	3,621,105,000	36,211
Shares repurchased and cancelled (<i>Note d</i>)	(185,690,000)	(1,857)
	<u>18,316,732,770</u>	<u>183,167</u>
Balance as at 31 December 2002 and at 31 December 2003	<u>18,316,732,770</u>	<u>183,167</u>

Notes:

- (a) Pursuant to a resolution passed by the shareholders of the Company at a special general meeting on 10 April 2002, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$500,000,000 by the creation of an additional 30,000,000,000 new shares of HK\$0.01 each in the capital of the Company.
- (b) Pursuant to the subscription agreement dated 1 February 2002 which was approved by the shareholders of the Company at the special general meeting of the Company held on 10 April 2002, the Company issued 4,800,000,000 new shares of HK\$0.01 each of the Company at a price of HK\$0.027 per share to Million Good Limited, a substantial shareholder of the Company as at the balance sheet date. The net proceeds of approximately HK\$129,600,000 together with that from the issue of convertible notes as described in note 34 would be used to repay debts, acquire investment, expand business of the Group with the balance be used as additional working capital of the Group. The new shares issued rank pari passu with the then existing shares in all respects.
- (c) The subscription agreements dated 31 May 2002 in respect of the subscription of shares of the Company by three subscribers for 2,000,000,000, 500,000,000 and 500,000,000 new shares respectively of HK\$0.01 each of the Company at a price of HK\$0.08 per share were approved by the shareholders of the Company at the special general meeting of the Company held on 4 July 2002. The net proceeds, upon receipt, would be used to expand and consolidate the Group's business in the PRC, which may involve investments and acquisition by the Group of existing companies or operations in those businesses where appropriate. The last two subscriptions have been completed and the new shares issued rank pari passu with the then existing shares in all respects. On 9 October 2003, the Company entered into a settlement agreement (the "Settlement Agreement") with the subscriber of the 2,000,000,000 shares (the "Subscriber") in which it was stated that the Subscriber's position was that there was not in existence any agreement or understanding, whether written or oral, in connection with any subscription by the Subscriber of shares in the Company. The Settlement Agreement also stated that the Company's position was that there was in existence a document stated to be dated 31 May 2002 relating to a subscription by the Subscriber of shares in the Company as well as a document stated that the completion date for such subscription had been extended. The Settlement Agreement provides that such disputed documents did not have any effect and would not proceed. There was no monetary consideration for the Settlement Agreement.

- (d) During the period from 1 April 2002 to 31 December 2002, the Company repurchased a total number of 185,690,000 of its own shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
July 2002	20,080,000	0.038	0.035	728
August 2002	151,170,000	0.038	0.025	4,809
September 2002	14,440,000	0.017	0.016	245

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on repurchase was charged against the share premium account.

- (e) During the year, the directors proposed a capital reorganisation of the Company ("Proposed Capital Reorganisation"). Details of the Proposed Capital Reorganisation were disclosed in the Company's announcement dated 17 February 2003. In October 2003, the directors resolved that the Proposed Capital Reorganisation would not proceed.

37. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme"), which was approved and adopted by shareholders of the Company on 3 May 2002, enabling the directors to grant options to employees, executives or officers of the Company or any of its subsidiaries (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisers who will contribute or have contributed to the Company or any of its subsidiaries as incentives and rewards for their contribution to the Company or such subsidiaries. The maximum number of shares in respect of which options may be granted under the Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the Scheme.

Option granted must be taken up within 30 days of the date of offer. The consideration payable for the option is HK\$1. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will not be less than the higher of (i) the average closing price of the shares for the five business days immediately preceding the date of grant, (ii) the closing price of the shares on the date of grant or (iii) the nominal value of the shares of the Company.

No share options have been granted under the Scheme since its adoption.

38. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Investment property revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Statutory reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP								
At 1 April 2002								
– as previously reported	795,296	55,554	573	(262)	–	150	(294,790)	556,521
– adjustment on adoption of SSAP 12 (Revised) (note 2)	–	–	–	–	(9,767)	–	2,442	(7,325)
– as restated	795,296	55,554	573	(262)	(9,767)	150	(292,348)	549,196
Premium on issue of shares, net of expenses of HK\$2,915,000	228,349	–	–	–	–	–	–	228,349
Premium utilised on repurchase of shares	(4,039)	–	–	–	–	–	–	(4,039)
Exchange difference arising on translation of financial statements of operations outside Hong Kong	–	–	–	(322)	–	–	–	(322)
Share of reserve of an associate	–	–	–	(65)	–	–	–	(65)
Reserve released on disposal of subsidiaries	–	–	–	68	–	–	–	68
Reserve released on deemed disposal of a subsidiary	–	–	–	470	–	–	–	470
Net loss for the period	–	–	–	–	–	–	(302,248)	(302,248)
At 31 December 2002 and 1 January 2003	1,019,606	55,554	573	(111)	(9,767)	150	(594,596)	471,409
Surplus arising from revaluation of investment property	–	–	163	–	–	–	–	163
Exchange difference arising on translation of financial statements of operations outside Hong Kong	–	–	–	(286)	–	–	–	(286)
Share of reserve of an associate	–	–	–	73	–	–	–	73
Transfer to investments in securities on reclassification of investments	–	–	–	–	9,767	–	–	9,767
Net loss for the year	–	–	–	–	–	–	(370,972)	(370,972)
At 31 December 2003	<u>1,019,606</u>	<u>55,554</u>	<u>736</u>	<u>(324)</u>	<u>–</u>	<u>150</u>	<u>(965,568)</u>	<u>110,154</u>

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition under the group reorganisation in September 1997.

The accumulated losses, translation reserve and statutory reserves of the Group include losses of HK\$246,293,000 (2002: HK\$223,662,000), surplus of HK\$73,000 (2002: deficit of HK\$65,000) and HK\$150,000 (2002: HK\$150,000) respectively attributable to the associates of the Group.

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company				
At 1 April 2002	795,296	177,800	(419,866)	553,230
Premium on issue of shares, net of expenses of HK\$2,915,000	228,349	–	–	228,349
Premium utilised on repurchase of shares	(4,039)	–	–	(4,039)
Net loss for the period	–	–	(435,731)	(435,731)
At 31 December 2002 and 1 January 2003	1,019,606	177,800	(855,597)	341,809
Net loss for the year	–	–	(235,895)	(235,895)
At 31 December 2003	<u>1,019,606</u>	<u>177,800</u>	<u>(1,091,492)</u>	<u>105,914</u>

The contributed surplus of the Company represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the group reorganisation in September 1997, net of HK\$100,000 applied in paying up in full at par the 1,000,000 then nil paid shares of HK\$0.10 each of the Company which were allotted and issued nil paid on 12 August 1997.

In addition to the accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

In the opinion of the directors, the reserves of the Company which were available for distribution to shareholders at 31 December 2003 were nil (2002: nil).

39. DISPOSAL OF DISCONTINUED OPERATION

On 31 October 2003, the Group disposed of its subsidiary which carried out the segment of transportation services. The net assets of Trans-Island Group at the date of disposal and at 31 December 2002 were as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	92,977	101,132
Inventories	56	57
Amounts due from group companies	8,775	17,698
Trade and other receivables	24,779	30,910
Tax recoverable	–	727
Bank balances and cash	3,356	4,654
Trade and other payables	(39,476)	(26,524)
Tax payable	(61)	(61)
Bank borrowings	(15,152)	(27,400)
Obligations under finance leases	(18,529)	(22,486)
Deferred taxation	(6,332)	(8,050)
	<u>50,393</u>	<u>70,657</u>
Unamortised goodwill	<u>12,571</u>	<u>13,067</u>
	62,964	<u><u>83,724</u></u>
Cash consideration	<u>(36,131)</u>	
	26,833	
Commission and related expenses	<u>5,864</u>	
Loss on disposal of subsidiaries	<u><u>32,697</u></u>	
Net cash inflow arising from disposal:		
Cash consideration	36,131	
Less: Bank balances and cash disposed of	(3,356)	
Commission and related expenses	<u>(5,864)</u>	
	<u><u>26,911</u></u>	

The subsidiaries disposed of during the year contributed HK\$124,329,000 to the Group's turnover and HK\$22,004,000 to the Group's loss before taxation.

40. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES

During the period from 1 April 2002 to 31 December 2002, several subsidiaries of the Group were deemed disposed/disposed of. The aggregate assets and liabilities of these subsidiaries at their respective dates of disposal were as follows:

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	517
Trade and other receivables	–	7,659
Amounts due from related companies	–	56
Tax recoverable	–	47
Bank balances and cash	–	1,448
Trade and other payables	–	(5,733)
Tax payable	–	(346)
Amounts due to related companies	–	(15)
Obligations under finance leases	–	(56)
Bank borrowings	–	(792)
Deferred taxation	–	(15)
	–	2,770
Retained as investments in associates/investments in securities by the Group	–	(1,596)
Reserves released on disposal of subsidiaries	–	538
	–	1,712
Loss on deemed disposal/disposal of subsidiaries	–	(1,712)
Consideration	–	–
Satisfied by:		
Cash consideration	–	–
	–	–

	1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
Analysis of net cash outflow of cash and cash equivalents in connection with the deemed disposal/disposal of subsidiaries:		
Cash consideration	—	—
Bank balances and cash disposed of	—	(1,448)
	<u>—</u>	<u>(1,448)</u>

There was no disposal of major subsidiary(ies) other than Trans-Island Group during the year.

The subsidiaries disposed of during the period from 1 April 2002 to 31 December 2002 did not have any significant impact on the turnover, operating results and cash flows of the Group.

41. ACQUISITION OF SUBSIDIARIES

On 24 September 2003, the Group acquired 100% of the issued share capital of Sinomatrix Limited by assets swap as described under note 27(c) above. Sinomatrix Limited, in turn holds 70% interest in Silver Bay Commodities Co., Ltd. The aggregate assets and liabilities are as follows:

	HK\$'000
Net assets acquired:	
Investments in securities	99,258
Minority interests	(29,778)
Net assets acquired	<u>69,480</u>

The subsidiaries acquired during the year contributed insignificant amount to the Group's turnover and loss from operations.

This acquisition has been accounted for by the acquisition method of accounting.

42. MAJOR NON-CASH TRANSACTIONS

- (a) During the year ended 31 December 2003, the Group disposed of the amount receivable from the property purchaser as mentioned under Note 27(c) above together with interests in other investments amounting to HK\$77,200,000 and HK\$22,913,000 (including HK\$287,000 receivable from the investee companies) respectively to exchange for a 70% interest in an investment company which holds a 26% interest in a PRC joint venture engaged in the operation of a hotel and leisure-related businesses. The acquired investee company is classified as investment securities at a fair value of HK\$99,258,000 at the date of completion of the transaction.
- (b) During the year, the Group disposed of its interests in Rosedale for a consideration of HK\$88,000,000 of which HK\$68,000,000 is due for payment after 31 December 2003.
- (c) During the year, the Group disposed of two-third of its rights to interests in a co-operative joint venture for HK\$40,000,000, which is yet to be received as at the balance sheet date.

- (d) During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value of HK\$ nil (1.4.2002 to 31.12.2002: HK\$12,155,000) at the inception of the finance leases.
- (e) During the period from 1 April 2002 to 31 December 2002, the Group disposed of its interest in an investment holding company which holds a right to acquire a 60% interest in Luoyang Golden Gulf Hotel Co. Limited to Rosedale for a consideration of HK\$110,000,000 satisfied by 366,666,666 new shares of Rosedale. Accordingly, the Group's investment in associates amounting to HK\$110,000,000 were transferred from long term investment deposits which comprised of HK\$24,400,000 brought forward, an amount of HK\$39,400,000 paid during the period and the balance of HK\$46,200,000 unpaid as at 31 December 2002.
- (f) During the period from 1 April 2002 to 31 December 2002, the Group acquired the remaining 25% interest in Trans-Island Group for HK\$40,000,000. At 31 December 2002, a balance of HK\$30,000,000 was outstanding.

43. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Bank balances, deposits and cash	111,709	61,510
Bank overdrafts	–	(7,717)
	<u>111,709</u>	<u>53,793</u>

44. PLEDGE OF ASSETS

At 31 December 2003, the Group's credit facilities were secured by the Group's assets as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Property interests	19,839	86,880
Bank balances	390	802
Motor vehicles	–	33,961
Office equipment and machinery	–	2,023
	<u>20,229</u>	<u>123,666</u>

In addition, at 31 December 2002, the Group also pledged its holding of 1,000,000,000 shares in Rosedale with a market value of approximately HK\$200,000,000 to secure other loans of HK\$100,000,000 granted to the Group.

45. CONTINGENT LIABILITIES

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks, financial institutions and suppliers in respect of credit facilities granted to subsidiaries	–	–	16,000	162,650
Guarantees given to banks, financial institutions and suppliers in respect of credit facilities granted	–	15,348	–	–
An undertaking to Apex (2002: Rosedale) to indemnify it against any potential loss upon the transfer of the land use right to the Luoyang Golden Gulf Hotel Co. Ltd. in relation to the disposal thereof during the period from 1 April 2002 to 31 December 2002 as disclosed in note 42(e)	37,347	37,347	37,347	37,347
Guarantee to the holder of the promissory note issued by a subsidiary of Apex	365,000	–	365,000	–
	<u>402,347</u>	<u>52,695</u>	<u>418,347</u>	<u>199,997</u>

In addition, the Group also had contingent liabilities in respect of liabilities arising from claims against Trans-Island Group in connection with its businesses before the disposal. The directors consider that the final outcomes of those claims will not be material and accordingly, no provision has been made in the financial statements.

46. OPERATING LEASE COMMITMENTS

As lessee

At 31 December 2003, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	13,752	18,154	3,853	–
In the second to fifth years inclusive	7,777	13,884	3,803	–
	<u>21,529</u>	<u>32,038</u>	<u>7,656</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties, shops and employees' quarters. Leases are negotiated for an average term of two years.

As lessor

At 31 December 2003 and 31 December 2002, the Group and the Company had not contracted with tenants for any future minimum lease payments.

47. CAPITAL COMMITMENTS

	The Group		The Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	–	3,751	–	–
Contracted for but not provided in the financial statements in respect of investments	–	5,000	–	5,000
	<u>–</u>	<u>8,751</u>	<u>–</u>	<u>5,000</u>

48. PROVIDENT FUND SCHEMES

The Group has retirement schemes covering a substantial portion of its employees. The principal schemes are defined contribution schemes. The assets of these schemes are held separately from those of the Group in funds under the control of independent trustees.

With effect from 1 December 2000, the Group joined a Mandatory Provident Fund Scheme (“MPF Scheme”) for all its new employees employed therefrom or existing employees wishing to join the MPF Scheme. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group in respect of MPF Scheme is to make the required contributions under the MPF Scheme.

The amounts charged to the income statement represent contributions payable to schemes and the MPF Scheme by the Group at rates specified in the rules of the schemes less forfeiture of HK\$1,003,589 (1.4.2002 to 31.12.2002: HK\$650,000) arising from employees leaving the Group prior to completion of the qualifying service period, if any.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefit schemes and which are available to reduce the contributions payable in future years was HK\$98,530 (2002: HK\$233,000).

49. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events taken place:

- (a) Following the closing of cash offer for shares in Apex (as described in note 17) on 9 January 2004, the Group holds a 67.9% interest in Apex. Apex will be accounted for as a subsidiary of the Company thereafter.
- (b) On 13 January 2004, the Company entered into conditional agreements with China Enterprises Limited (“CEL”), a substantial shareholder of the Company and Hutchison International Limited (“HIL”), in relation to the issuance of the convertible notes by the Company to each of them or their respective nominees for a consideration of HK\$155,000,000 and HK\$105,000,000 respectively to finance the repayment of the convertible notes due in April 2004. The convertible notes to be issued carry interest of 2% per annum; entitle the holders to convert into shares of the Company at the conversion price of HK\$0.02 per share, subject to adjustments, and are repayable on the third anniversary of the date of issue. The completion of the agreements is conditional upon the fulfillment or waiver by the relevant party of certain conditions including, among others, the approval of the shareholders of the Company of the transactions and a waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission from the obligation on the part of CEL and HIL and their respective concert parties to make general offer for the shares of the Company upon exercise of all (or relevant part) of the conversion rights attaching to the notes.
- (c) In February 2004, a 50% associate of the Group, acquired an interest in a piece of land in Hong Kong. Subsequently, the Group entered into a sale and purchase agreement to dispose of the entire interest of the aforesaid associate. The disposal of the associate is expected to be completed by 30 June 2004. Upon the completion, the profit arising from the disposal will amount to approximately HK\$39,000,000.
- (d) The Group has redeemed HK\$50,000,000 of the convertible notes due on 19 April 2004 and is discussing with the holders of the remaining convertible notes on the possibility to extend the maturity date. Both CEL and HIL have indicated their willingness to extend the maturity date for their convertible notes and the directors are taking steps to finalise such arrangements.

50. RELATED PARTY TRANSACTIONS

(a) During the year/period, the Group had transactions with related parties as follows:

				1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
(I)	Nature of transactions	Note	Name of company		
	Property rental expenses paid and payable by the Group	(i)	Mass Success International Ltd.	1,790	288
			Cycle Company Limited and Gunnell Properties Limited	1,630	–
				<u>3,420</u>	<u>288</u>
	Air ticketing and travel service income received and receivable by the Group	(ii)	Hanny Holdings Limited and its subsidiaries	666	1,056
			Paul Y. – ITC Construction Holdings Limited and its subsidiaries	486	838
			Dong Fang Gas Holdings Limited and its subsidiaries	318	–
			ITC Corporation Limited and its subsidiaries	266	460
			China Strategic Holdings Limited and its subsidiaries	213	248
			PSC Corporation Limited	213	–
			Star East Holdings Limited and its subsidiaries	118	901
			Mobile Media Management Limited	27	–
			Cheung Wah Ho Dyestuffs Company Limited	17	–
			X-One Management Limited	11	–
			Rosedale and its subsidiaries	–	303
				<u>2,335</u>	<u>3,806</u>
	Interest on convertible notes	(iii)	Million Good Limited	<u>1,696</u>	<u>1,345</u>
	Loan interest paid and payable by the Group	(iv)	China Strategic Holdings Limited and its subsidiaries	2,229	891
			Hanny Holdings Limited and its subsidiaries	1,790	1,298
			Million Good Limited	1,710	–
			Nation Cheer Investment Limited	385	–
				<u>6,114</u>	<u>2,189</u>
	Net income on sales of computer program source code	(v)	Cyber Business Network (Hong Kong) Limited	<u>3,000</u>	<u>–</u>

Notes:

- (i) The property rental expenses paid and payable by the Group were determined in accordance with the terms of relevant agreements.
- (ii) The above companies purchased air tickets from the Group at rates comparable to market rates.
- (iii) The interest on convertible notes was calculated at the rate specified in the issued convertible notes.
- (iv) The interest paid and payable by the Group for loans from these companies was calculated at rates comparable to market rates.
- (v) The above company purchased the computer program source code from the Group at a price with reference to the market rate.

Certain directors of the Company are also directors of and/or have beneficial interests in those companies other than Rosedale. Rosedale was an associate of the Group and was disposed of in December 2003.

			1.1.2003 to 31.12.2003 HK\$'000	1.4.2002 to 31.12.2002 HK\$'000
(II)	Nature of transactions	Note	Name of company	
	Agency fees paid by the Group	(i)	Ananda Travel Service, Inc. HK Ananda Travel (Malaysia) Sdn. Bhd. 辰達旅行社有限公司 Ananda Travel Philippines, Inc.	60 – – – 103
				60 <u>1,019</u>
	Property rental expenses paid by the Group	(ii)	Tower Property Limited	– <u>5,439</u>
	Printing expenses paid by the Group	(iii)	Ananda Public Relations & Advertising Limited	– <u>1,013</u>
	Air ticketing and travel services income received by the Group	(iv)	Ananda Travel Service, Inc. HK Ananda Travel (Malaysia) Sdn. Bhd.	7 – 14
				7 <u>78</u>

Notes:

- (i) During the period from 1 April 2002 to 31 December 2002, the above companies acted as the Group's land operators in the jurisdictions in which they are located. Agency fees were calculated in accordance with the agency agreements entered into between the Group and each of the above related companies on 20 September 1997.

- (ii) The Group continued to occupy office premises owned by Tower Property Limited until December 2002. The rentals were calculated on the basis of an amount determined by reference to the floor area of the relevant property, and comparable rent paid for similar properties by tenants occupying such premises.
- (iii) During the period ended 31 December 2002, Ananda Public Relations & Advertising Limited provided printing services for the Group's promotional materials at prices comparable to market rates.
- (iv) During the period ended 31 December 2002, the above companies purchased air tickets and other travel related services from the Group at rates comparable to market rates.

The Group accrued no fee (1.4.2002 to 31.12.2002: HK\$9,000) payable to each of Ananda Development Limited and Ananda Holdings Limited for the Group to use the address of certain premises in Guangzhou and Hong Kong as the correspondence address of the Group's representative office in Guangzhou and the Company's head office and principal place of business respectively.

The Group accrued an annual fee of HK\$10 (1.4.2002 to 31.12.2002: HK\$10) to Ananda Holdings Limited for a non-exclusive licence to the Group to use the "Ananda" trademark.

Mr. Chan Yeuk Wai has controlling interests in the above companies, except for Ananda Travel Philippines, Inc., Ananda Travel Service, Inc., 辰達旅行社有限公司 and HK Ananda Travel (Malaysia) Sdn. Bhd., companies in which they have minority interests.

- (b) During the year, the Company executed a guarantee in favour of the holder of the promissory note issued by a subsidiary of Apex as security to secure the promissory note to the extent of HK\$365 million together with interest. No commission or charges were received from Apex group in respect of the guarantee.
- (c) During the year, a subsidiary of an indirect substantial shareholder has pledged certain of its share investments listed in Hong Kong with a lender to secure its loan granted to the Company. No commission or charges were paid to the subsidiary of the indirect substantial shareholder by the Group in respect of the security provided.
- (d) During the year/period, the Group recorded hotel management fee income of HK\$nil (1.4.2002 to 31.12.2002: HK\$1,075,000) receivable from Heilongjiang Ananda in accordance with the hotel management contract entered with Heilongjiang Ananda.
- (e) During the year/period, two directors, including a former executive director of the Company, executed personal guarantees to a bank and a securities company to secure their loans granted to the Group. No commission or charges were paid to the directors by the Group in respect of the above guarantees.
- (f) During the year/period, the Group received loans from related companies. Details of their relationship and the terms of the loans are set out in note 30 to the financial statements.
- (g) During the period from 1 April 2002 to 31 December 2002, the Group maintained trading accounts with related companies. Terms of the balances and allowances made during the period are set out in notes 24 and 31 to the financial statements.
- (h) On 22 July 2002, the Company together with other parties entered into a series of agreements with Rosedale. As at 31 December 2002, Rosedale was an associate of China Strategic Holdings Limited which is an indirect substantial shareholder of the Company. One of them included disposing of its interest in an investment company holding a right to acquire a 60% interest in Luoyang Golden Gulf Hotel Co., Limited whose principal asset is the Golden Gulf Hotel in Luoyang, the PRC, for a consideration of HK\$110,000,000 which was satisfied by

366,666,666 new shares of Rosedale. The transaction was approved by the independent shareholders of the Company at the special general meeting held on 28 October 2002 and shall be completed subject to settlement of the outstanding payment in accordance to the payment schedule.

The Company, in relation to the disposal of the interest in the investment company holding Luoyang Golden Gulf Hotel Co., Limited gave an undertaking to Apex to indemnify it against any potential loss they may suffer as a result of failure to transfer the land use right to Luoyang Golden Gulf Hotel Co., Limited including the payment of any land premium payable for such transfer. It is estimated that the land premium for such transfer would be approximately RMB39.7 million (equivalent to approximately HK\$37,347,000).

In addition to the above 366,666,666 new shares in Rosedale, the Group also subscribed for 1,000,000,000 shares in Rosedale at a price of HK\$0.30 per share amounting in aggregate to a total consideration of HK\$300,000,000. The transaction was also approved by the independent shareholders of the Company at the special general meeting held on 28 October 2002.

51. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2003, all of which are wholly owned by the Company, unless otherwise stated, are as follows:

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Principal activities
Ananda Travel (Canada) Limited	Canada	C\$15,000	Travel and related services
Ananda Travel Limited	Macau	MOP1,000,000	Travel and related services
Ananda Travel (U.K.) Limited	United Kingdom	£2	Travel and related services
Asian Pearl Investments Limited	BVI	US\$1	Investment holding in the PRC
Benchmark Pacific Limited	BVI	US\$1	Investment holding in Hong Kong
Credit Paradise Limited	Hong Kong	HK\$2	Property investment in Malaysia
Golden Sun Limited	Hong Kong	HK\$2	Investment holding
Hong Kong Wing On Travel Service Limited	Hong Kong	Ordinary – HK\$180,000,100 Deferred – HK\$20,000,000 **	Outbound travel and related services
Kingsgrove International Limited	Hong Kong	HK\$2	Property investment
Many Good Money Exchange Limited	Hong Kong	HK\$100,000	Money exchange services
Mexmara Holdings Limited	BVI	US\$1	Property investment in Hong Kong

Name of company	Place of incorporation/ registration	Issued and paid up share capital/ registered capital	Principal activities
Millennium Target Holdings Limited	BVI	US\$1	Investment holding in Hong Kong
Moreton International Limited	Hong Kong	HK\$2	Property investment
Silver Bay Commodities Limited*	Hong Kong	HK\$20,000	Investment holding in the PRC
Sinomatrix Limited	BVI	US\$1	Investment holding in Hong Kong
South Africa Express Limited	BVI	US\$1	Travel services in the PRC
Success Fund Industrial Limited	Hong Kong	HK\$100	Property investment in the PRC
Super Grade Investment Limited	BVI	US\$1	Property investment in Hong Kong
Watertours of Hong Kong Limited	Hong Kong	Ordinary – HK\$1,500,000 “B” – HK\$100 **	Watertour services
Wing On China Hotel Investment Limited (formerly known as “Ananda China Hotel Investment Limited”)	BVI	US\$1	Investment holding in the PRC
Wing On Hotel Management Limited (formerly known as “Ananda Hotel Management Limited”)	BVI	US\$4	Hotel management services in the PRC
Wing On Travel And Tour Limited (formerly known as “Ananda Travel Limited”)	Hong Kong	HK\$2,000,000	Inbound travel and related services
Wing On Travel (BVI) Limited (formerly known as “Ananda Wing On Travel (BVI) Limited”)	BVI	US\$10,000	Investment holding in Hong Kong
World Way (Pacific) Limited	Hong Kong	HK\$2	General trading

* 70% owned by the Group.

** The deferred shares and “B” shares are owned by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution in winding up.

All of the above principal subsidiaries, other than Wing On Travel (BVI) Limited, are held indirectly by the Company.

The above principal subsidiaries operate in their respective place of incorporation or registration unless as stated otherwise.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

No debt securities have been issued by any of the subsidiaries.

3. STATEMENT OF THE UNAUDITED PROFORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is a statement of the unaudited proforma adjusted consolidated net tangible assets of the Group, based on the audited consolidated financial statements of the Group for the year ended 31 December 2003 and adjusted as follows:

	<i>HK\$'000</i>
Audited consolidated net tangible asset value of the Group as at 31 December 2003	293,321
Purchase consideration of the shares in Apex acquired under the Apex Offer	(13,255)
Net assets acquired under the Apex Offer	81,428
Negative goodwill in Apex attributable to the Group	<u>12,076</u>
Unaudited proforma adjusted consolidated net tangible asset value of the Group immediately after the closing of the Apex Offer	373,570
Estimated expenses for the Issue	<u>(1,500)</u>
Unaudited proforma adjusted consolidated net tangible asset value of the Group after the closing of the Apex Offer and the Issue but before any conversion of the Convertible Notes	372,070
Issue of new Shares upon conversion of the Convertible Notes	<u>260,000</u>
Unaudited proforma adjusted consolidated net tangible asset value of the Group assuming full conversion of the Convertible Notes	<u><u>632,070</u></u>
Unaudited proforma adjusted consolidated net tangible asset value per Share after the closing of the Apex Offer and the Issue (but before conversion of the Convertible Notes) based on 18,316,732,770 Shares in issue as at the Latest Practicable Date	<u><u>2.031 cents</u></u>
Unaudited proforma adjusted consolidated net tangible asset value per Share after the closing of the Apex Offer and the Issue based on 31,316,732,770 Shares in issue as at the Latest Practicable Date and to be issued assuming full conversion of the Convertible Notes at HK\$0.02 each	<u><u>2.018 cents</u></u>
Unaudited proforma adjusted consolidated net tangible asset value per Share after the closing of the Apex Offer and the Issue based on 35,650,066,103 Shares in issue as at the Latest Practicable Date and to be issued assuming full conversion of the Convertible Notes at HK\$0.015 each	<u><u>1.773 cents</u></u>

4. MATERIAL CHANGE

Apex has become an indirect subsidiary of the Company following the closure of the Apex Offer on 9 January 2004. The relevant changes in the Company's trading and financial position as a result of the consolidation of Apex were disclosed in the circular of the Company dated 31 October 2003. Save for the abovementioned and the effect of the Apex Offer as disclosed under the paragraph headed "Statement of the unaudited proforma adjusted consolidated net tangible assets of the Group" in this appendix, the Directors are not aware of any material change in the financial or trading position of the Company since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up.

5. INDEBTEDNESS

Set out below are the outstanding indebtedness of the Group as at the close of business on 31 March 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular:

Borrowings

At the close of business on 31 March 2004, the Group had outstanding borrowings of approximately HK\$822 million, comprising secured bank borrowings of approximately HK\$351 million and other borrowings of approximately HK\$471 million. The other borrowings comprise amounts due to related companies of approximately HK\$463 million, other borrowings of approximately HK\$7 million and obligations under finance leases of approximately HK\$1 million.

Debt securities

As at 31 March 2004, the Group had outstanding 2002 CN and secured promissory notes in an aggregate amount of approximately HK\$254 million and HK\$365 million respectively.

Securities and guarantees

The secured borrowings as shown above were secured by certain property, plant and equipment of the Group with an aggregate net book value of approximately HK\$1,265 million as at 31 March 2004.

Disclaimer

Save as otherwise disclosed in this section headed "Indebtedness" in this circular and apart from intra-group liabilities, the Group did not have, at the close of business on 31 March 2004, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans 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 currency amounts have been translated into Hong Kong dollars at the exchange rates prevailing at the close of business on 31 March 2004. The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 March 2004 and up to the Latest Practicable Date.

6. WORKING CAPITAL

Taking into account the available banking facilities and internal resources of the Group, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements.

Set out below are the texts of the letters, summary of valuations and valuation certificates received from RHL Appraisal Ltd. and Norton Appraisals Limited, independent property valuers, in connection with their valuation as at 29 February 2004 of the property interests of the Group.



Member of RHL International Property Consultants
永利行國際物業顧問集團成員

RHL Appraisal Ltd. **永利行評值顧問有限公司**

Surveyors, Valuers, Land & Property Consultants

The Directors
Wing On Travel (Holdings) Limited
7/F., Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon

24 May 2004

Dear Sirs,

Re: Valuation of the Various Hotels in Hong Kong and in the People's Republic of China

1. INSTRUCTION

In accordance with the instructions from **Wing On Travel (Holdings) Limited** (referred to as the "Company"), we have valued the hotel properties (referred to as the "Properties") situated in Hong Kong and in the People's Republic of China (referred to as the "PRC") and held by the Company or its subsidiaries (the Company and its subsidiaries are altogether referred to as the "Group"). We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the open market value of the Properties as at 29 February 2004 (referred to as the "valuation date").

This letter, which forms part of our valuation report, explains the basis and methodology of valuation and set out assumptions made and other qualifications.

2. BASIS OF VALUATION

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

- (i) a willing seller;
- (ii) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (iii) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (iv) that no account is taken of any additional bid by a purchaser with a special interest; and

- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

As the Properties are currently being operated as hotels, we have valued them as operational entities on going concern basis assuming that the existing business operations therein shall be continued. Our valuation also reflects the value of all chattels and fitting out within the Properties in associate with the hotel business operations.

3. VALUATION METHODOLOGY

The Properties have been valued as fully operating entities. We have employed the comparison method by making reference to transactions of similar properties. Adjustments are made to reflect the differences in location, view, calibre, number of rooms, nature of operation and market conditions etc.. We have also cross-checked our results from comparison by the investment method which is applicable in valuing income generating properties including hotels. Such method is by way of capitalisation of net income/operating profit at a capitalisation rate which is determined by making reference to the rates of return of other prime investment properties and other hotel transactions. As far as the net income/operating profits of the Properties are concerned, we have considered their historical operating results of 2002 and 2003.

4. ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Properties on the open market in the existing state without the benefit of options, rights of pre-emption, deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the Properties. The Company has also confirmed that there was no option or right of pre-emption connecting or affecting the value of the Properties attributable to the Company as at the valuation date.

For those properties which are held by the Group by means of long term Government Leases or Land Use Right Contracts, we have assumed that the Group has free and uninterrupted right to use the Properties for the whole of the unexpired terms of their respective Government Leases or Land Use Right Contracts subject to payment of annual ground rent (if any).

Other special assumptions for our valuation (if any) have been stated out in the footnotes of the valuation certificate attached herewith.

5. TITLE INVESTIGATION

We have conducted land searches at the Land Registry for the property situated in Hong Kong. Moreover, we have been provided with copies of legal documents regarding the properties situated in the PRC. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect ownership of the Properties. All legal documents supplied by the Company (if any) have been used for reference only.

We have also relied upon the legal opinion provided by the PRC legal adviser, King & Wood PRC Lawyers (北京市金杜律師事務所), to the Company on the relevant laws and regulations in the PRC and on the Group's interest in the Properties situated in the PRC at the valuation date.

6. LIMITING CONDITIONS

We have inspected the exterior of the Properties valued and, where possible, we have also inspected the interior of the premises but no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the Properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. All dimension, measurements and areas are based on the information supplied by the Company and where possible, they will be verified by us by referring to the copies of documents available to us.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on matters such as statutory notices, easements, tenure, occupancy, site and floor areas, development scheme and in the identification of the Properties.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Company. We have relied on the Company's confirmation that no material facts have been omitted from the information supplied.

No allowance has been made in our valuation for any outstanding land premium charge, mortgage or amount owing the Properties nor for expense or taxation which may be incurred in effecting a sale. We have assumed that the Properties are free from encumbrances, restrictions and outgoing of an onerous nature which could affect the value. According to the information provided by the Group, the potential tax liability which would arise on the disposal of the properties situated in the PRC are business tax, PRC land capital gain tax and PRC corporate tax. In the course of our valuation, we have neither verified nor taken into account such tax liability. As advised by the Group, no tax liability apart from the transaction cost of the Properties would arise if the Properties were to be sold at the amount of valuation.

7. REMARKS

We have valued the Properties in Hong Kong Dollars. The conversion of Renminbi (RMB) into Hong Kong Dollars (HK\$) is based on the factor of HK\$1.00 = RMB1.068 with reference to the exchange rates as prevailing on the date of valuation.

In preparing this valuation report, we have conducted in accordance with the Hong Kong Guidance Notes on the Valuation of Property Asset (2nd Edition) published by the Hong Kong Institute of Surveyors and complied with all requirements contained in the Listing Rule and the Practice Note 12 issued by The Stock Exchange of Hong Kong Limited and all the requirements contained in Rule 11 of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission.

We enclose herewith summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Wayne W.K. Lee
MRICS MHKIS RPS(GP)
Director

Tse Wai Leung
BSc MRICS MHKIS RPS(GP)
Director

Wayne W.K. Lee is a member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor in General Practice and Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC, have over eight years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

Encl.

SUMMARY OF VALUATION

Property		Capital value in existing states as at 29 February 2004	Interest attributable to the Company	Value of property interest attributable to the Company as at 29 February 2004
Property Interests held by the Group for Investment				
1.	Best Western Rosedale on the Park No. 8 Shelter Street Causeway Bay Hong Kong	HK\$600,000,000.-	67.9%	HK\$407,400,000.-
2.	Rosedale Hotel & Suites ■ Beijing No. 8 Jiang Tai West Road, Chao Yang District Beijing, the PRC.	HK\$500,000,000.-	64.5%	HK\$322,500,000.-
3.	Rosedale Hotel & Suites ■ Guangzhou No. 348 Jiangnanda Road, Haizhu District, Guangzhou, the PRC.	HK\$190,000,000.-	55%	HK\$104,500,000.-
Total:		<u>HK\$1,290,000,000.-</u>		<u>HK\$834,400,000.-</u>

VALUATION CERTIFICATE

Property Interests held by the Group for Investment

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 29 February 2004																
1. Best Western Rosedale on the Park No. 8 Shelter Street Causeway Bay Hong Kong	<p>The Property comprises a site with an area of 6,640.5 square feet on which a 30-storey hotel building was completed in 2000.</p> <p>The Property has a total gross floor area of approximately 102,173 square feet and is accommodating a total of 274 guest rooms. Functional uses of each of the floor levels are set out as follows:</p> <table><tr><th>Floor Level</th><th>Functional Uses</th></tr><tr><td>G/F</td><td>Entrance foyer, concierge, plant rooms, staff entrance, delivery entrance, loading area, fireman lift/disable lift, service lift, car lift and carpark</td></tr><tr><td>1/F</td><td>Reception & cashier counter, seating area, sales & marketing office, executive office, telephone boot, plant rooms and escalator</td></tr><tr><td>2/F</td><td>Restaurant/coffee shop, main kitchen, chef office, food & beverage storage, stewarding storage, dishwashing area and wine storage</td></tr><tr><td>3/F</td><td>Carpark and water tank</td></tr><tr><td>5/F to 6/F</td><td>Back of house and plant rooms</td></tr><tr><td>7/F to 32/F</td><td>Guest rooms (accommodating a total of 322 standard room modules or 274 guest rooms)</td></tr><tr><td>33/F</td><td>Executive lounge and function rooms</td></tr></table> <p>4/F, 13/F, 14/F and 24/F are omitted in the hotel</p> <p>The Property is held under Government Lease for a term of 999 years commencing on 20 May 1889 at an annual Government rent of HK\$86.</p>	Floor Level	Functional Uses	G/F	Entrance foyer, concierge, plant rooms, staff entrance, delivery entrance, loading area, fireman lift/disable lift, service lift, car lift and carpark	1/F	Reception & cashier counter, seating area, sales & marketing office, executive office, telephone boot, plant rooms and escalator	2/F	Restaurant/coffee shop, main kitchen, chef office, food & beverage storage, stewarding storage, dishwashing area and wine storage	3/F	Carpark and water tank	5/F to 6/F	Back of house and plant rooms	7/F to 32/F	Guest rooms (accommodating a total of 322 standard room modules or 274 guest rooms)	33/F	Executive lounge and function rooms	As at the date of our inspection, the Property is being operated as a fully operational hotel.	HK\$600,000,000.- (67.9% interest attributable to the Company: HK\$407,400,000.-)
Floor Level	Functional Uses																		
G/F	Entrance foyer, concierge, plant rooms, staff entrance, delivery entrance, loading area, fireman lift/disable lift, service lift, car lift and carpark																		
1/F	Reception & cashier counter, seating area, sales & marketing office, executive office, telephone boot, plant rooms and escalator																		
2/F	Restaurant/coffee shop, main kitchen, chef office, food & beverage storage, stewarding storage, dishwashing area and wine storage																		
3/F	Carpark and water tank																		
5/F to 6/F	Back of house and plant rooms																		
7/F to 32/F	Guest rooms (accommodating a total of 322 standard room modules or 274 guest rooms)																		
33/F	Executive lounge and function rooms																		

Notes:

1. The registered owner of the Property is Hey Wealth Limited, a wholly-owned subsidiary of Apex Quality Group Limited (“Apex”), via memorial no. 6011500 dated 30 April 1994.
2. The Property is subject to a debenture dated 2 April 2001 (registered via memorial no. 8365248) in favour of Citic Ka Wah Bank Limited and International Bank of Asia Limited and a deed of assignment and novation of debenture dated 13 February 2003 (registered via memorial no. 8889663) by International Bank of Asia Limited.
3. We have valued the Property as an operational entity on going concern basis on the assumption that the existing business operations in the Property will be continued. Our valuation reflects the value of all chattels and fitting out within the Property in associate with the hotel business operations.
4. The subject site falls within an area currently zoned “Commercial/ Residential” under the Outline Zoning Plan No. S/H6/11.

Property	Description	Particulars of occupancy	Capital value in existing state as at 29 February 2004
2. Rosedale Hotel & Suites ■ Beijing No. 8 Jiang Tai West Road, Chao Yang District, Beijing, the PRC.	<p>The Property comprises a site with an area of 18,699.6 square metres on which a 20-storey hotel building is erected. In addition, 2 basement levels are provided underneath. The Property was completed in 1990. The Property also includes 3 blocks of single to 2-storey ancillary building.</p> <p>The Property has a total gross floor area of 37,173.20 square metres.</p> <p>The Property comprises a total of 429 guest rooms, a shopping arcade, food and beverage outlets, cafe shop, fitness centre, multi-function rooms, business centre and car parking spaces.</p> <p>The Property is fully equipped with motor vehicles, operation equipment, trade fixture and fitting, furniture and stock including laundry, stores, kitchen and executive offices.</p>	As at the date of our inspection, the Property is being operated as a fully operational hotel.	<p>HK\$500,000,000.-</p> <p>(64.5% interest attributable to the Company: HK\$322,500,000.-)</p>

Notes:

1. According to a Land Use Right Certificate (No. 京市朝港澳台國用(2001出)字第10208號) dated 22 November 1994 (renewed on 17 September 2001) and a Building Ownership Certificate (No. 京房權証市朝港澳台字第10156號) dated 17 September 2001, the Property is held by Beijing Harbour Plaza Co., Ltd. (北京海逸酒店有限責任公司) (name changed to Rosedale Hotel Beijing Co., Ltd. (北京珀麗酒店有限責任公司)) for a term of 50 years expiring on 21 November 2044.
2. Rosedale Hotel Beijing Co., Ltd. (北京珀麗酒店有限責任公司) is a sino-foreign equity joint venture established by Wan Shou Hotel and DS Eastin Limited, a wholly-owned subsidiary of Apex, with respective equity interest of 5% and 95%. Therefore, Apex holds an effective interest of 95% in the Property.
3. We have valued the Property as an operational entity on going concern basis on the assumption that the existing business operations in the Property will be continued. Our valuation reflects the value of all chattels and fitting out within the Property in associate with the hotel business operations.
4. Opinion of the Company's legal adviser on the PRC laws are summarised as follows:
 - 4.1 Rosedale Hotel Beijing Co., Ltd. has obtained a Certificate of Approval (No. 外經貿資審A字19980003號) from the State Business Administration (中華人民共和國商務部) for its establishment and a business licence (No. 企合國字第000158號) from the State Administration of Industry and Commerce for its operations. Rosedale Hotel Beijing Co., Ltd. is a sino-foreign equity joint venture established on 26 January 1987 and has a registered capital of US\$17,200,000 of which 95% was contributed by DS Eastin Limited and 5% was contributed by Wan Shou Hotel. All profits are distributed in pro-rata to the contribution of capital. According to the business licence of Rosedale Hotel Beijing Co., Ltd., its operational period is from 26 January 1987 to 25 January 2024, Rosedale Hotel Beijing Co., Ltd. has obtained all necessary approvals for its establishment and the approvals are remain valid;
 - 4.2 According to a Land Use Right Certificate (No. 京市朝港澳台國用(2001出)字第10208號) and a Building Ownership Certificate (京房權証市朝港澳台字第10156號), the Property is held by Beijing Harbour Plaza Co., Ltd. (name changed to Rosedale Hotel Beijing Co., Ltd. (北京珀麗酒店有限責任公司)), for a term of 50 years expiring on 21 November 2044; and
 - 4.3 Rosedale Hotel Beijing Co., Ltd. has the rights to transfer, to lease or to charge the Property.

Property	Description	Particulars of occupancy	Capital value in existing state as at 29 February 2004
3. Rosedale Hotel & Suites ■ Guangzhou No. 348 Jiangnanda Road, Haizhu District, Guangzhou, the PRC.	<p>The Property comprises a parcel of land with an area of 10,838.88 square metres on which a 26-storey hotel plus two basement levels was completed in 1989.</p> <p>The Property consists of a total of 388 guest rooms and suites and 60 office units, shopping arcades, restaurants, coffee shop, a lobby bar, multi-purpose function rooms, business centre, swimming pool, gymnasium, game room, foot massage centre and tennis courts.</p> <p>The Property has a total gross floor area of 46,865.83 sq.m..</p> <p>The Property is fully equipped with motor vehicles, operation equipment, trade fixture and fitting, furniture and stock including laundry, stores, kitchen and executive offices.</p>	As at the date of our inspection, the Property is being operated as a fully operational hotel.	<p>HK\$190,000,000.-</p> <p>(55% interest attributable to the Company: HK\$104,500,000.-)</p>

Notes:

- As stipulated in 36 sets of Building and Land Ownership Certificate (Nos.穗房地証字第0555474 to 0555509號) all dated 8 November 1999, the Property is held by Rosedale Hotel Guangzhou Co., Ltd. (廣州珀麗酒店有限公司) ("Rosedale Hotel Guangzhou") (formerly known as Guangzhou Jiang Nan Hotel Co., Ltd. (廣州江南大酒店有限公司)) for hotel use.
- According to a joint venture agreement dated 6 May 1992 and two supplemental agreements respectively dated 7 May 1992 and 28 January 2002 all entered into between 廣州聯星農工商總公司 (Party A) and Allied Glory Investment Limited (合榮投資有限公司) (Party B), a 82% owned subsidiary of Apex, Rosedale Hotel Guangzhou is a sino-foreign co-operative joint venture established by the said two parties with respective shareholdings of 1% and 99% for operating the Property. As provided in the joint venture agreement, Party B shall entitle to recoup its total investment (US\$28,282,828.28 as confirmed by Party A and Party B on 25 May 1993) from the after tax profit and depreciation allowance of Rosedale Hotel Guangzhou before sharing the net profit from the operations in the Property with Party A in the ratio of 20% (Party A) and 80% (Party B).
- As revealed from the Annual Report of 2003 of Apex, Apex holds an effective interest of 81% in the Property.
- We have valued the Property as an operational entity on going concern basis on the assumption that the existing business operations in the Property will be continued. Our valuation reflects the value of all chattels and fitting out within the Property in associate with the hotel business operations.
- Our valuation of the Property is arrived at subject to the following assumptions:
 - Rosedale Hotel Guangzhou has obtained necessary consents or approvals in operating hotel businesses within the Property, in leasing the Property and in pledging the Property;
 - there shall have no legal impediment for Rosedale Hotel Guangzhou's completing land grant procedures with payment of land premium;
 - upon completing the necessary land grant procedures, Rosedale Hotel Guangzhou shall secure land use rights in the Property for a term of not less than 40 years, being the maximum term for the purpose of commercial uses under the prevailing land law of the PRC; and
 - the capital value of the Property stated herein is net of the land premium payable by Rosedale Hotel Guangzhou for completing the land grant procedures.

- 6 Opinion of the Company's legal adviser on the PRC laws are summarised as follows:
- 6.1 Rosedale Hotel Guangzhou has obtained a Certificate of Approval (No.外經貿穗合作証字19920246號) from the People's Government of Guangzhou dated 18 February 2002 for its establishment and a business licence (No.企作粵穗總字第001094號) from the State Administration for Industry and Commerce for its business operations. Rosedale Hotel Guangzhou is a sino-foreign co-operative joint venture established on 15 January 1987 and has a registered capital of US\$11,500,000 of which 1% was contributed by Party A and 99% by Party B. According to the business licence of Rosedale Hotel Guangzhou. Its operational period is from 15 January 1987 to 15 January 2017. Rosedale Hotel Guangzhou has obtained all necessary government approvals for its establishment and the approvals are remain valid;
- 6.2 According to 36 sets of Building and Land Ownership Certificate, the Property is held by Rosedale Hotel Guangzhou;
- 6.3 As stated in 36 sets of Building and Land Ownership Certificate, land grant procedures for the Property have not yet been completed and it is required to pay land premium before the Property can be transferred. Being the owner of the Property, Rosedale Hotel Guangzhou is entitled to use the Property during its permitted operation period. However, it is not allowed to transfer and to lease the Property unless it completes land grant procedures for the Property and obtains prior approval from the relevant government authorities.



Room 3830 – 3832, Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

The Directors
Wing On Travel (Holdings) Limited
7/F Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon

24 May 2004

Dear Sirs,

In accordance with your instructions for us to value the property interests (as specified in the Summary of Values as attached) held by Wing On Travel (Holdings) Limited (hereinafter referred to as the “Company”) and its subsidiaries and associated companies (hereinafter together referred to as the “Group”) in Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) and Malaysia, we confirm that we have carried out inspections and made relevant enquires and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of those property interests as at 29 February 2004 (hereinafter referred to as the “date of valuation”).

BASIS OF VALUATION

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

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

In valuing the property Nos. 8 and 9 which are occupied for the purpose of the business operating therein, we have valued the properties on the basis of their existing use values. The existing use value takes into account the definition of the open market value but with the following two added assumptions:

- (f) that the property can be used for the foreseeable future only for the existing use; and
- (g) that vacant possession could be provided on completion of the sale of all parts of the property occupied by the business.

The above definition of open market value, with the added assumptions that the properties will continue in owner occupation in their existing uses (albeit potentially with the new owners), therefore ignores the potential alternative uses (and/or hope value in the future) which may be attributable to the possibility of securing statutory approvals, with or without the payment of premium for alternative uses, lease modifications or joint development. We further assume that any possible extensions or redevelopment would only be taken for the purpose of the business, subject to obtaining all necessary government consents.

In valuing the property interests, we have assumed that the owner has valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired lease/land use terms granted subject to payment of annual Government rent/land use fees and all requisite land premium/purchase consideration payable has been fully settled.

We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time as a portfolio.

VALUATION METHODOLOGY

In valuing the property interests (except the “Waterworld” portion of the property No. 8), we have valued the interests by the comparison method assuming such property interests are available for sale in their existing states and by making reference to comparables sale transactions as available in the relevant market. For the properties Nos. 8 and 9 which are held by the Group and operated as fully operated hotels in the PRC, we have also employed the income/investment method which is commonly employed in valuing investment properties generating income or profit including hotels. Such method is by way of capitalization of net income/operating profit at a capitalization rate which is determined by making reference to the rates of return of other prime investment properties and other hotel transactions in the PRC. In the course of our valuations, we have considered the historical operating results of the hotels in 2002 and 2003.

Where, due to the nature of the buildings/structures and machinery constructed for the “Waterworld” of the property No. 8, there is no readily identifiable market comparable, and the buildings/structures and machinery of the property cannot be valued on the basis of direct comparison. We have therefore value the Waterworld of the property on the basis of its depreciated replacement cost. We would define “depreciated replacement cost” for this purpose to be our opinion of the new replacement cost of the buildings/structures and machinery, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescences. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

In valuation the property No. 7 in the PRC, we have also taken into account the construction costs that will be expended to complete the development to reflect the development potential of the property and the quality of the completed development. The “capital value when completed” represents our opinion of the aggregate selling prices of the developments assuming that it would have been completed at the date of valuation.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting sales of the properties and no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values. According to the information provided by the Group, the potential tax liability which would arise on the disposal of the properties situation in the PRC would be in respect of business tax, PRC land capital gain tax and PRC corporate income tax. As advised by the Group, no tax liability apart from the transaction cost of the properties would arise if the properties were to be sold at the amounts of the valuations.

In valuing those property interests located in Hong Kong, the Government leases of which have expired before 30 June 1997, we have taken into account the provisions contained in the Basic Law of the Hong Kong Special Administrative Region and the New Territories (Extension) Ordinance 1988 that such leases have been extended without any additional payment of premium until 30 June 2047 and that an annual rent equivalent to three per cent of the rateable value of the properties will be charged from the date of extension.

TITLE INVESTIGATION

We have caused title searches to be made at the appropriate Land Registries in respect of properties in Hong Kong, however, no title search has been made for property Nos. 6 to 9 which are located in Malaysia and in the PRC. We have relied on the advice given by the Company and its legal adviser 廣東君道律師事務所 (Guangdong Hills & Co. Law Office) and 洛陽翰法律師事務所 (Luoyang Hon Fa Law Office), together referred to as the “PRC legal advisers”, regarding the titles to the property interests Nos. 7 & 8 and 9 respectively. We have, however, assumed that transferable land use rights of the properties for the specific term at nominal annual land use fee have been granted and that any premium payable has already been fully paid.

LIMITING CONDITIONS

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

We have not carried out on-site measurements to verify the correctness of the site and floor areas in respect of the properties but have assumed that the floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached valuation certificates are based on information contained in the documents provided to us and are, therefore, only approximations.

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

We have relied to a considerable extent on the information provided by the Company and have accepted advice on such matters as number of guestrooms, management accounts, occupancy rates, rooms rates, joint-venture and management agreements, planning approvals, statutory notices, easements, tenure, development proposal, estimated outstanding construction costs, particulars of occupancy, lettings, site and floor areas and all other relevant matters in the identification of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have been also advised by the Company that no material facts have been omitted from the information provided.

We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000 and also in compliance with the requirements as stated in Rule 11 of The Hong Kong Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission and the Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation certificates are in Hong Kong dollars. The exchange rates adopted in our valuations are HK\$1 = RMB1.06 and RM1=HK\$2.04 which were the approximate exchange rates prevailing as at the date of valuation. There are no significant fluctuation in such exchange rates between the date of valuation and the date of this letter.

Our Summary of Values and the Valuation Certificates are enclosed herewith.

Yours faithfully,
For and on behalf of
Norton Appraisals Limited

M. K. Wong
MRICS, MHKIS, RPS (G.P.)
Director

Note: Mr. M. K. Wong is a Registered Professional Surveyor who has more than 10 years' experience in the valuation of properties in Hong Kong, the PRC and overseas.

SUMMARY OF VALUES

Property	Capital value in existing state as at 29 February 2004 HK\$	Interest attributable to the Group	Capital value attributable to the Group as at 29 February 2004 HK\$
Group I – Property interests held by the Group in Hong Kong			
1 Workshops A and B on 1st Floor, Sunking Factory Building, Nos. 1-7 Shing Chuen Road, Shatin, New Territories, Hong Kong	9,200,000	100%	9,200,000
2 Units 2101 and 2102 (including the flat roofs) on 21st Floor, Units 2201 and 2202 (including the flat roofs) on 22nd Floor, Seaview Commercial Building, Nos. 21-24 Connaught Road West & Nos. 43-47 New Market Street, Sheung Wan, Hong Kong	9,800,000	100%	9,800,000
3 Unit 3 on 6th Floor of Block 38, Heng Fa Chuen, No. 100 Shing Tai Road, Chai Wan, Hong Kong	1,950,000	100%	1,950,000
4 Unit Nos. 1222 and 1223 on 12th Floor, Nan Fung Centre, Nos. 264-298 Castle Peak Road & Nos. 64-98 Sai Lau Kok Road, Tsuen Wan, New Territories, Hong Kong	2,300,000	100%	2,300,000
5 Nos. 6, 8, 10 and 12 Leighton Road, Causeway Bay, Hong Kong	130,000,000	50%	65,000,000
Sub-total:	153,250,000		88,250,000
Group II – Property interest held by the Group in Malaysia			
6 Lot Nos. T009 and T010, 3rd Floor, Sungei Wang Plaza, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia	1,430,000	100%	1,430,000
Sub-total:	1,430,000		1,430,000

Property	Capital value in existing state as at 29 February 2004 HK\$	Interest attributable to the Group	Capital value attributable to the Group as at 29 February 2004 HK\$
Group III – Property interests held by the Group in the PRC			
7 Land, buildings and structures erected thereon a land located at Henny Travel Holiday Centre, Yintan (Silverbeach) State Travel Holiday Area, Beihai City, Guangxi Zhuang Nationality Autonomous Region, the PRC	38,600,000	100%	38,600,000
8 Singapore Hotel Project at No. 68 Ganshui Road, Xiangfang District, Harbin City, Heilongjiang Province, the PRC	823,000,000	50%	411,500,000
9 Golden Gulf Hotel, No. 319 Zhongzhou Zhong Road, Xigong District, Luoyang City, Henan Province, the PRC	152,000,000	40.7%	61,864,000
Sub-total:	<u>1,013,600,000</u>		<u>511,964,000</u>
Grand Total:	<u><u>1,168,280,000</u></u>		<u><u>601,644,000</u></u>

VALUATION CERTIFICATE

Group I – Property interests held by the Group in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
1. Workshops A and B on 1st Floor, Sunking Factory Building, Nos. 1-7 Shing Chuen Road, Shatin, New Territories, Hong Kong 64/850th equal and undivided shares of and in Sha Tin Town Lot No. 26 (the "Lot")	Sunking Factory Building (the "Building") is an 8-storey industrial building with car parking facilities completed in 1981. The property comprises two industrial units on the 1st Floor of the Building having a total gross floor area and saleable area of 1,645.86 sq.m. (17,716 sq.ft.) and 1,176.05 sq.m. (12,659 sq.ft.) respectively. The Lot is held under New Grant No. 11228 for a term of 99 years commencing from 1 July 1989 less the last three days thereof and is statutorily extended to 30 June 2047.	The property is currently occupied by the Company for storage purpose.	\$9,200,000 (100% interest attributable to the Group: \$9,200,000)

Notes:

1. The registered owner of the property is Kingsgrove International Limited, a wholly-owned subsidiary of the Group, vide Memorial No. 1065131 dated 15 September 1997.
2. The property is subject to the following encumbrances:
 - a) An Order No. DR01191/NT/03/TCW/TC under S.28 (3) of the Buildings Ordinance by the Building Authority vide Memorial No. 1341821 dated 29 September 2003; and
 - b) A Mortgage to secure general banking facilities and the consideration is all moneys in favour of Hang Seng Bank Limited vide Memorial No. 1349645 dated 3 December 2003.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
2. Units 2101 and 2102 (including the flat roofs) on 21st Floor, Units 2201 and 2202 (including the flat roofs) on 22nd Floor, Seaview Commercial Building, Nos. 21-24 Connaught Road West & Nos. 43-47 New Market Street, Sheung Wan, Hong Kong	Seaview Commercial Building (the "Building") is a 24-storey commercial building completed in 1980. The property comprises two office units on the 21st Floor and two office units on the 22nd Floor of the Building having a total saleable floor area of approximately 499.81 sq.m. (5,380 sq.ft.) plus flat roofs of 42.74 sq.m. (460 sq.ft.). The Lots is held under five separate Government Leases. Marine Lot Nos. 311 and 312 are both held for a term of 999 years commencing from 19 June 1902. Marine Lot No. 313 is held for a term of 999 years commencing from 29 September 1902. Marine Lot No. 314 is held for a term of 999 years commencing from 16 November 1903 whereas Marine Lot No. 315 is held for a term of 999 years commencing from 31 January 1901.	The property is currently vacant.	\$9,800,000 (100% interest attributable to the Group: \$9,800,000)
8/140th equal and undivided shares of and in the Remaining Portions of Marine Lot Nos. 311, 312, 313, 314 and 315 (the "Lots")			

Notes:

1. The registered owner of the property is Moreton International Limited, a wholly-owned subsidiary of the Group, vide Memorial No. 7640969 dated 15 September 1997.
2. The property is subject to a Mortgage to secure general banking facilities and the consideration is all moneys in favour of Hang Seng Bank Limited vide Memorial No. 9077419 dated 20 November 2003.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
3. Unit 3 on 6th Floor of Block 38, Heng Fa Chuen, No. 100 Shing Tai Road, Chai Wan, Hong Kong	Heng Fa Chuen is a large-scale private estate development comprising 48 blocks high-rise residential buildings, a commercial complex and a number of recreational facilities completed in 1988.	The property is currently vacant.	\$1,950,000
548/4685000th equal and undivided shares of and in the Remaining Portion of Chai Wan Inland Lot No. 121 (the "Lot")	The property comprises a residential unit of a 19-storey residential building. The gross floor area and saleable area of the property are approximately 56.48 sq.m. (608 sq.ft.) including bay windows of 1.67 sq.m. (18 sq.ft.) and 46.36 sq.m. (499 sq.ft.) respectively.		(100% interest attributable to the Group: \$1,950,000)
	The Lot is held under Conditions of Grant No. 11789 for a term of 75 years and is renewable for a further term of 75 years commencing from 3 April 1985.		

Note:

The registered owner of the property is Mexmara Holdings Limited, a wholly-owned subsidiary of the Group, vide Memorial No. 7249492 dated 8 September 1994.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
4. Unit Nos. 1222 and 1223 on 12th Floor, Nan Fung Centre, Nos. 264-298 Castle Peak Road & Nos. 64-98 Sai Lau Kok Road, Tsuen Wan, New Territories, Hong Kong	Nan Fung Centre (the "Building") is a 23-storey commercial building erected over a level of bus terminal on the Ground Floor and a level of Basement carpark completed in 1983. The property comprises two office units of the Building having a total gross floor area of approximately 151.90 sq.m. (1,635 sq.ft.).	The property is subject to a licence at a monthly licence fee of \$28,558 (exclusive of rates and management fees).	\$2,300,000 (100% interest attributable to the Group: \$2,300,000)
1521/672977th equal and undivided shares of and in Tsuen Wan Town Lot No. 258 (the "Lot")	The Lot is held under New Grant No. 5922 for a term of 99 years from 1 July 1898 less the last three days thereof and is statutorily extended to 30 June 2047.		

Notes:

1. The registered owner of the property is Super Grade Investment Limited, a wholly-owned subsidiary of the Group, vide Memorial No. 1159622 dated 15 July 1997.
2. The property is subject to the following encumbrances:
 - a) A Mortgage to secure general banking facilities in favour of Overseas Union Bank Limited vide Memorial No. 1169403 dated 23 August 1997; and
 - b) A Notice of Merger in favour of United Overseas Bank Limited vide Memorial No. 1447417 dated 2 January 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
5. Nos. 6, 8, 10 and 12 Leighton Road, Causeway Bay, Hong Kong	The property comprises four contiguous parcels of land and having a total registered site area of approximately 446.19 sq.m. (4,803 sq.ft.).	The property is subject to a monthly license agreement with a monthly licence fee of \$25,000 for public car parking use.	\$130,000,000 (50% interest attributable to the Group: \$65,000,000)
Inland Lot Nos. 4373, 4374, 4375 and 4376	The property is held under four Government Leases for a common term of 75 years commencing from 6 November 1899 renewed for 75 years. The annual Government Rent payable for the property is \$2,888.		

Notes:

1. The registered owner of the property is Concord Way Limited, 50% owned associated company of the Group, vide Memorial No. 9182452 dated 17 March 2004.
2. The property is subject to a Debenture to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited and the consideration is all moneys vide Memorial No. 9182453 dated 17 March 2004.
3. The property falls within an area currently zoned "Residential (A)" under the Outline Zoning Plan No. S/H7/11 dated 29 April 2003.

Group II – Property interest held by the Group in Malaysia

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
6. Lot Nos. T009 and T010, 3rd Floor, Sungei Wang Plaza, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia	<p>The property comprises two adjoining retail shops on the 3rd Floor of Sungei Wang Plaza, which is a 7-storey shopping/entertainment complex plus two levels of basement car parks.</p> <p>The total floor area of the property is 101.73 sq.m. (1,095 sq.ft.).</p>	The property is currently subject to a licence at a monthly fee of RM4,300.	<p>\$1,430,000</p> <p>(100% interest attributable to the Group: \$1,430,000)</p>

Note:

As advised by the Group that the beneficial owner of the property is Credit Paradise Limited, a wholly-owned subsidiary of the Group, and the individual subsidiary (strata) titles in respect of the property has not yet been issued.

Group III – Property interests held by the Group in the PRC

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
7. Land, buildings and structures erected thereon a land located at Henny Travel Holiday Centre, Yintan (Silverbeach) State Travel Holiday Area, Beihai City, Guangxi Zhuang Nationality Autonomous Region, the PRC	<p>The property comprises a parcel of land with an area of 15,557.8 sq.m. (167,464 sq.ft.) planned for hotel development including a hotel building a staff-quarter building and a boiler room.</p> <p>The hotel building is planned to comprise 12 storeys with a basement. It is of reinforced concrete construction and partially finished with ceramic and concrete tiled external walls having a gross floor area of 17,289.87 sq.m. (186,108 sq.ft.). On completion, it will accommodate a total of about 280 guest rooms.</p> <p>The staff-quarter building is a 3-storey plus a penthouse of brick and concrete structures and finished with ceramic tiled external walls completed in about 1996 having a gross floor area of 1,876.69 sq.m. (20,201 sq.ft.).</p> <p>The boiler room is a 2-storey brick and concrete structures and finished with ceramic tiled external walls completed in about 1996 with gross floor area of 298.17 sq.m. (3,210 sq.ft.).</p> <p>The land use rights of the land on which the buildings are erected have been granted until 6 June 2032.</p>	<p>The hotel portion is partially completed whilst the staff-quarter and boiler room are vacant.</p>	<p>\$38,600,000</p> <p>(100% interest attributable to the Group: \$38,600,000)</p>

Notes:

- Pursuant to the Building Ownership Certificate Guai Fung Zhang Zi Di No. 0519056 dated 25 October 1996 issued by Real Estate Administrative Bureau of Beihai City, the title of the hotel building with the gross floor area of 17,289.87 sq.m. is vested in 萬昌實業有限公司 (referred to as “Success Fund Industrial Limited”), a wholly-owned subsidiary of the Group.
- Pursuant to the Building Ownership Certificate Guai Zhang Zi Di No. 0519108 dated 25 October 1996 issued by Real Estate Administrative Bureau of Beihai City, the title of the staff-quarter building with the gross floor area of 1,876.69 sq.m. is vested in Success Fund Industrial Limited.
- Pursuant to the Building Ownership Certificate Guai Fung Zhang Zi Di No. 0518057 dated 25 October 1996 issued by Real Estate Administrative Bureau of Beihai City, the title of the boiler room with the gross floor area of 298.17 sq.m. is vested in Success Fund Industrial Limited.
- As advised by the Group, the development of the property is planned to be completed in 2005 and the estimated total construction costs and the outstanding construction costs to complete the proposed development are approximately RMB95,000,000 and RMB72,000,000 respectively.
- The “capital value when completed” of the proposed development is approximately RMB132,000,000.

6. The opinion of the PRC legal adviser of the Company on PRC law states that:
- a) According to the Building Ownership Certificates, Success Fund Industrial Limited has duly obtained the land use rights and building ownership rights of the property and are freely transferable by way of transfer, mortgage or letting.
 - b) Upon obtaining the Certificate for State-owned Land Use Rights and the land premium has been fully paid, Success Fund Industrial Limited is entitled to let, mortgage, transfer the land use rights and building ownership rights of the property to both local and overseas purchasers.
 - (c) Pursuant to the Building Ownership Certificates issued by Real Estate Administrative Bureau of Beihai City, Success Fund Industrial Limited has duly obtained all necessary planning permits and consents from relevant authorities for the development of the property.
7. In the course of our valuation, we have assumed that:
- a) Success Fund Industrial Limited is in possession of a proper legal title to the property and is entitled to transfer the property with residual term of its land use rights at no onerous payment to the government;
 - b) As advised by the Group that the total outstanding amount, including the land premium payable to the Real Estate Administrative Bureau of Beihai City is RMB755,943.97. In the course of our valuation, we have assumed that all the payments including land premium and other costs of ancillary utilities services have been settled in full;
 - c) The design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities; and
 - d) The property may be disposed of freely to both local and overseas purchasers.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004																		
8. Singapore Hotel Project at No. 68 Ganshui Road, Xiangfang District, Harbin City, Heilongjiang Province, the PRC	<p>The subject development comprises a 21-storey hotel building (known as “Singapore Hotel”) interconnected with a 3-storey water amusement complex (known as “Dream World”) and an Ancillary Building having a total gross floor area of approximately 78,302.96 square metres. The subject development also comprises a vacant land (hereinafter referred to as “Phase II” Land) having a total registered site area of approximately 31,798 square metres.</p> <p>The land use rights of the property have been granted for a term of 40 years from 29 June 1993 to 29 June 2033.</p> <p><i>Singapore Hotel</i></p> <p>Singapore Hotel is a 21-storey 5-star hotel and had its soft opening in November 1997 and became fully operational in January 1999.</p> <p>The hotel, having a total gross floor area of approximately 39,346.22 square metres, accommodates a total of 338 guestrooms (including 1 presidential suite, 26 suites and 311 standard guestrooms). In addition, it has function rooms, grand ballrooms, various food and beverage outlets and entertainment and recreational facilities. Details of the uses are more particularly listed as follows:</p> <table><tr><th>Level</th><th>Uses</th></tr><tr><td>L1</td><td>Hotel lobby, café, lounge, grand ballroom, functions rooms, karaoke lounge, shops and business center</td></tr><tr><td>L2</td><td>Café, western and Chinese restaurants</td></tr><tr><td>L3</td><td>Sauna, management offices</td></tr><tr><td>L4</td><td>Mechanical floor</td></tr><tr><td>L5 – 13</td><td>Guestrooms</td></tr><tr><td>L14 – 18</td><td>Guestrooms</td></tr><tr><td>L19</td><td>Guestrooms, lounge and meeting room</td></tr><tr><td>L20 – 21</td><td>Guestrooms</td></tr></table>	Level	Uses	L1	Hotel lobby, café, lounge, grand ballroom, functions rooms, karaoke lounge, shops and business center	L2	Café, western and Chinese restaurants	L3	Sauna, management offices	L4	Mechanical floor	L5 – 13	Guestrooms	L14 – 18	Guestrooms	L19	Guestrooms, lounge and meeting room	L20 – 21	Guestrooms	<p>Singapore Hotel and Dream World are currently managed by Wing On Hotel Management Limited.</p> <p>Phase II of the property is currently a vacant site.</p>	<p>\$823,000,000</p> <p>(50% interest attributable to the Group: \$411,500,000)</p>
Level	Uses																				
L1	Hotel lobby, café, lounge, grand ballroom, functions rooms, karaoke lounge, shops and business center																				
L2	Café, western and Chinese restaurants																				
L3	Sauna, management offices																				
L4	Mechanical floor																				
L5 – 13	Guestrooms																				
L14 – 18	Guestrooms																				
L19	Guestrooms, lounge and meeting room																				
L20 – 21	Guestrooms																				

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
	<i>Dream World</i>		
	<p>Dream World was opened in October 1997 and became fully operational in January 1999. It is a 3-storey building which includes a basement and 8 mezzanine floors of reinforced construction with glass windows on roof and having a total gross floor area of approximately 33,308.20 square metres.</p> <p>Majority portion of first floor of Dream World is provided with an all-weather indoor amusement park named “Waterworld”. It is well served with variety kinds of water sports and activities such as a man-made wave water pool (approximately 8,000 square metres with 1.8 metre depth), 6 high speed with 140 metres long (max.), padding pools, Jacuzzi, laser show, pool side bar and changing rooms. The remaining portion of first floor accommodates food plaza, retail shops and game machine center.</p> <p>The second floor accommodates a night club, a karaoke with VIP rooms whilst the basement floor accommodates a computerized bowling centre, a billiard room, main office and a car park. Moreover, the basement floor also served with an air ventilation room, pump room, control room and water supply facilities.</p>		
	<i>Ancillary Building</i>		
	<p>Ancillary Building, having a total gross floor area of approximately 5,648.54 square metres, is a 5-storey building completed in 1996. It comprises of canteen, dominatory, boiler room, water laboratory and general office area. In addition, an opening structure includes 12 sets of water cooling is located at the opposite of the Ancillary Building.</p>		
	<i>Phase II Land</i>		
	<p>Phase II Land comprises an irregular-shape vacant site, having a site area of approximately 31,798 square metres located on the eastern side of Singapore Hotel. It is advised by the Company that the site is planned to be develop into a residential and commercial composite development with a maximum gross floor area of approximately 172,697 square metres.</p>		

Notes:

1. Pursuant to the Certificate for State-owned Land Use No. 哈資國用(94)字第001號 issued by 哈爾濱市人民政府 (People's Government of Harbin City) in April 1994, the land use rights of the property have been granted to 黑龍江辰龍游樂有限公司 (Heilongjiang Ananda Entertainment Co., Ltd. (the "Joint Venture")) for a term of 40 years from 29 June 1993 to 29 June 2033 for tourist related business.
2. Particulars of the Contract for Grant of State-owned Land Use Rights are summarized as follows:
 - a) Lot No. : 1993-45
 - b) Site Area : 83,698 square metres
 - c) Usage : Tourist related business
 - d) Land Use Term : 40 years
 - e) Plot Ratio : 3.0
 - f) Green Land Ratio : 30.1%
3. Pursuant to three Certificates for Building Ownership Nos. 哈房權証開國字第00016900, 00016901 & 00016902號 issued by 哈爾濱市房地產管理局 (Harbin City Real Estate Administration Bureau) on 17 March 2000, the title to the buildings erected in Phase I of the development is vested in the Joint Venture.
4. Particulars of the Joint Venture are summarized as follows:
 - a) Name of the Joint Venture : Heilongjiang Ananda Entertainment Co., Ltd.
 - b) Existing parties to the Joint Venture : 中國黑龍江省糧油食品進出口(集團)公司 (Party A)
中國銀行黑龍江省國際信託投資公司 (Party B)
Ananda China Hotel Investment Limited (Party C)
(currently renamed as Wing On China Hotel Investment Limited, a wholly-owned subsidiary of the Group.)
 - c) Registered Capital : USD31,460,000
 - d) Percentages of Equity Shares : Party A – 25 per cent.
Party B – 25 per cent.
Party C – 50 per cent.
 - e) Profit/Loss Sharing : The profit and loss of the Joint Venture shall be allocated to or borne by the parties to the Joint Venture in proportion to the percentages of their respective equity shares.
 - f) Period of Operation : 40 years commencing from 27 March 1992
5. Pursuant to the Business Licence (Registration No.: 工商企合黑字 00305號) issued by the State Administration of Industry and Commerce on 28 June 1999, the Joint Venture was incorporated as a sino-foreign joint venture enterprise with a registered capital of USD31,460,000 for an operational period from 27 March 1992 until 26 March 2017.
6. The scope of business of the Joint Venture comprises the operation of hotel, entertainment complex of Dream World, which includes a water park, food and beverage outlets, nightclub, karaoke lounge, bowling alley and billiards, and the development of a residential and commercial complex.
7. Pursuant to the Management Agreement entered into between the Joint Venture and Ananda Hotel Management Limited, currently renamed as Wing On Hotel Management Limited, a wholly-owned subsidiary of the Group, (referred to as the "Management Company") on 31 December 1994, the Joint Venture contracted with the Management Company to take over the management of Singapore Hotel and Dream World. Major terms and conditions of the said Management Agreement are summarized as follows:
 - a) Management Period : From 31 December 1994 and expiring on 1 January 2003
 - b) Basic Management Fees : 2.5 per cent. on gross revenue to be paid in arrear in US dollars on a monthly basis
 - c) Management Incentive : 5.0 per cent. on gross operational profit to be paid in arrear in US dollars on an annual basis

8. As advised by the Group that the extension of the management period of the Management Company is under negotiation between the Joint Venture and the Management Company.
9. As advised by the Group, the phase II of the development is planned to be completed in 2009 and the estimated outstanding construction costs to complete the phase II of the development is approximately HK\$348,000,000.
10. The “capital value when completed” of the Phase II of the development is approximately HK\$806,000,000.
11. The opinion of the PRC legal adviser of the Company on PRC law states that:
 - a) Accordingly to the Contract for Grant of State-owned Land Use Rights, Certificate for State-owned Land Use Rights and Certificates for Building Ownership, the Joint Venture has duly obtained the land use rights and building ownership rights of the property and are freely transferable by way of transfer, mortgage or letting.
 - b) The Joint Venture has been duly incorporated and has full corporate power and legal capacity to carry out on the business specified in the Business Licence of the Joint Venture.
 - c) Pursuant to the Mortgage Contract entered into between the Heilongjiang Province Branch of Bank of China, (the “Bank”) and the Joint Venture on 5 December 2000, the property is subject to a mortgage in favour of the Bank for a total consideration of RMB870,372,200.
 - d) Pursuant to the (2004)民二終字第19號二審終審民事判決書 awarded by Supreme Court of the PRC dated 23 March 2004, the Joint Venture should settle the principals of USD65,655,581.61 and RMB37,500,000 with their respective interests to the Bank, and if the said amounts cannot be settled accordingly, the property will be enforced for sale, but not limited to, by auction.
 - e) Upon discharging the mortgage, the Joint Venture is entitled to let, mortgage, transfer the land use rights and building ownership rights of the property to both local and overseas purchasers.
 - f) For the development of the Phase II of the development, the Joint Venture need to apply the relevant Construction Work Commencement Permit and the Construction Work Planning Permit for the said development. The application are administrative procedures and there are no legal impediments in relation thereto.
12. In the course of our valuation, we have assumed that:
 - a) The Joint Venture is in possession of a proper legal title to the property and is entitled to transfer the property together with the residual term of its land use rights at no extra land premium and other onerous charges payable to the government;
 - b) All land premium and other costs of resettlement and public utilities services (including Phases I and II of the development) have already been fully settled;
 - c) The operational period of the Joint Venture as stated in its business licence can be extended upon its expiry in 2017 to the end of the Joint Venture period (i.e. 27 March 2032) as stated in the Contract for Equity Joint Venture Enterprise at no other onerous charges payable to the government;
 - d) The design and construction of Phases I and II of the property are in compliance with the local planning regulations and have been approved by the relevant authorities;
 - e) That all consents, approvals and licences from relevant government authorities for Phases I and II of the property have been granted without any onerous conditions or undue delay which might affect the value;
 - f) Phase I of the property will be reasonably managed by an efficient and effective management with competent key personnel and technical staff to support its ongoing operation; and
 - g) The property, whether as a whole or on an individual basis, can be disposed of freely to both local and overseas purchasers.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004																																							
9. Golden Gulf Hotel, No. 319 Zhongzhou Zhong Road, Xigong District, Luoyang City, Henan Province, the PRC	<p>The property comprises a hotel complex (known as “Golden Gulf Hotel”) developed on a parcel of land with a site area of approximately 9,025.51 sq.m.</p> <p>The property comprises a 25-storey 3-star hotel building erected over 2 levels of basement completed and started operation in early 1999. It accommodates 145 guest rooms of various classes, 39 office suites and a number of food and beverage outlets, recreational and entertainment facilities. In addition, an open car park is provided to the hotel.</p> <p>The total gross floor area of the property is approximately 21,269.18 sq.m.. Details of the uses are more particularly listed as follows:</p> <table><tr><th>Level</th><th>Gross Floor Area (sq.m.)</th><th>Uses</th></tr><tr><td>B2</td><td>1,807.80</td><td>Laundry and plantrooms</td></tr><tr><td>B1</td><td>1,807.80</td><td>Management office, staff canteen, changing rooms, and warehouse</td></tr><tr><td>1</td><td>1,351.96</td><td>Reception, lounge, shops, business centre, bar, fire and security control room</td></tr><tr><td>2 & 3</td><td>2,786.36</td><td>Café, western restaurant, and Chinese restaurant</td></tr><tr><td>4</td><td>1,393.18</td><td>Beauty salon and health centre</td></tr><tr><td>5</td><td>1,199.18</td><td>Nightclub, discotheque and Karaoke lounge</td></tr><tr><td>6</td><td>625.59</td><td>Sauna</td></tr><tr><td>7-10</td><td>2,345.96</td><td>Total 39 office suites</td></tr><tr><td>11-22</td><td>7,133.21</td><td>Total 145 guest rooms</td></tr><tr><td>23</td><td>645.46</td><td>Recreational centre accommodating bar, game rooms, billiards, snooker and gymnasium</td></tr><tr><td>24&25</td><td>172.68</td><td>Lift machine room, pump room and store room</td></tr><tr><td>Total</td><td><u>21,269.18</u></td><td></td></tr></table>	Level	Gross Floor Area (sq.m.)	Uses	B2	1,807.80	Laundry and plantrooms	B1	1,807.80	Management office, staff canteen, changing rooms, and warehouse	1	1,351.96	Reception, lounge, shops, business centre, bar, fire and security control room	2 & 3	2,786.36	Café, western restaurant, and Chinese restaurant	4	1,393.18	Beauty salon and health centre	5	1,199.18	Nightclub, discotheque and Karaoke lounge	6	625.59	Sauna	7-10	2,345.96	Total 39 office suites	11-22	7,133.21	Total 145 guest rooms	23	645.46	Recreational centre accommodating bar, game rooms, billiards, snooker and gymnasium	24&25	172.68	Lift machine room, pump room and store room	Total	<u>21,269.18</u>		<p>The property is currently operated as a hotel.</p>	<p>\$152,000,000</p> <p>(40.7% interest attributable to the Group: \$61,864,000)</p>
Level	Gross Floor Area (sq.m.)	Uses																																								
B2	1,807.80	Laundry and plantrooms																																								
B1	1,807.80	Management office, staff canteen, changing rooms, and warehouse																																								
1	1,351.96	Reception, lounge, shops, business centre, bar, fire and security control room																																								
2 & 3	2,786.36	Café, western restaurant, and Chinese restaurant																																								
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Total	<u>21,269.18</u>																																									

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 29 February 2004
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The land use rights of the property have been granted to Luoyang Power Supply Bureau by way of allocation for an unspecified term for industrial/transport uses.

Notes:

1. Pursuant to the Certificate for Building Ownership No. 洛市房權證(2000)字第X120461號 issued by 洛陽市房地產管理局 (“Luoyang City Real Estate Administration Bureau”) on 2 November 2000, the building ownership of the property, having a total gross floor area of approximately 21,269.18 sq.m., is vested in Luoyang Golden Gulf Hotel Co., Ltd. (the “JV Company”) for servicing use.
2. Pursuant to the Certificate for State-owned Land Use Rights No. 洛市國用(95)字第216號 issued by 洛陽市土地管理規劃局 (“Luoyang City Land Administration and Planning Bureau”) on 3 August 1995, the land use rights of a parcel of land located at the side of No. 23, Ba Yi Road, Xigong District, Luoyang City, having a site area of approximately 23,497.44 sq.m. of which comprising the subject land of the property, have been granted to 洛陽市電業局 (“Luoyang Power Supply Bureau”) by way of allocation for an unspecified term for industrial/transport uses.
3. Pursuant to the Articles of the JV Company entered into between Luoyang Power Supply Bureau, an Independent Third Party, and 洛陽龍羽電力發展集團有限責任公司 (“Luoyang Longyu Power Development (Group) Company Limited”), an Independent Third Party, on 20 January 1999, both parties agreed to establish the JV company with a registered capital of RMB29,900,000 of which 70% was contributed by Luoyang Power Supply Bureau and 30% was contributed by Luoyang Longyu Power Development (Group) Company Limited. The parties’ profit sharing are in accordance with the proportion of the parties’ capital contribution.
4. Pursuant to the Land Use Rights Contract entered into between Luoyang Power Supply Bureau and the JV Company on 15 April 1999, Luoyang Power Supply Bureau agreed to permit the JV Company to use the land use rights of the property, having a site area of approximately 9,025.51 sq.m., for a term commencing from April 1999 to April 2049 for hotel use.
5. Pursuant to the Management Agreement entered into between the JV Company and Luoyang Power Supply Bureau on 18 November 1999, the JV Company agreed to appoint Luoyang Power Supply Bureau to manage and operate the hotel.
6. Pursuant to the Agreement for Transfer of 60% equity interest of the JV Company entered into between Luoyang Power Supply Bureau and Shropshire Property Limited, a subsidiary of Apex Quality Group Limited, on 8 June 2001, Luoyang Power Supply Bureau agreed to transfer 60% equity interest of the JV Company to Shropshire Property Limited for a consideration of HK\$90,600,000 by installments and the JV Company shall become a sino-foreign equity joint venture company.
7. As confirmed by the Group, the Group holds an effective interest of 40.7% in the property.
8. Pursuant to the Business Licence No. 000489 issued by State Administration of Industry and Commerce on 1 March 2004, the JV Company was incorporated with a registered capital of RMB64,000,000 and has an operational period from 7 November 2003 to 6 November 2033. The scope of business includes the operation of accommodation, food and beverage, cultural and entertainment services; beauty and hair salon, bathing, laundry and dying, leasing services; and retailing of food, beverage, cigarette, handicraft and artistic products (excluding gold-plate and silver-wares).
9. Pursuant to the Undertaking entered into between Shropshire Property Limited and Luoyang Power Supply Bureau on 16 September 2002, Luoyang Power Supply Bureau agreed to assist the JV Company to apply for transfer of the land use rights of the property to the JV Company.
10. Pursuant to the Undertaking issued by Wing On Travel (Holdings) Limited on 12 December 2003 in substitution of the Undertaking issued by Wing On Travel (Holdings) Limited (formerly Aanada Wing On Travel (Holdings) Limited) on 2 October 2002, Wing On Travel (Holdings) Limited has undertaken to indemnify Apex Quality Group Limited against any loss which Apex Quality Group Limited and, or Shropshire Property Limited and, or the JV Company may suffer as a result of failure to transfer the land use rights of such land by Luoyang Power Supply Bureau to the JV Company including the payment of any land premium for such transfer.

11. The opinion of the PRC legal adviser of the Company on PRC law states that:
- a) the JV Company has obtained the Building Ownership Certificate No. 洛市房權證 (2000) 字第X120461號. The building ownership right of the property is lawfully held by the JV Company of which 60% equity interest held by Shropshire Property Limited.
 - b) Pursuant to the Certificate for State-owned Land Use Rights No. 洛市國用(95)字第216號 dated 3 August 1995, the land use rights of a parcel of land, located at the side of No. 23 Ba Yi Road, Xigong District, Luoyang City, having a site area of approximately 23,497.44 sq.m. (comprising the subject site of 9,025.51 sq.m.) have been allocated to Luoyang Power Supply Bureau for an unspecified term for industrial/transport uses. At present, the land having a site area of approximately 9,025.51 sq.m. is used by the JV Company for hotel purpose. As the development of the hotel has obtained approval from PRC government authority, the current operation of the JV Company is not inconsistent with the aforesaid permitted use for industrial/transport purposes.
 - c) According to the Land Use Rights Contract entered into between Luoyang Power Supply Bureau and the JV Company in 1999, Luoyang Power Supply Bureau agreed to permit the JV Company to use the land use rights of the property, having a site area of approximately 9,025.51 sq.m., for a term commencing from April 1999 to April 2049 for free. It is confirmed that Luoyang Power Supply Bureau has the right to allocate the land use rights of the property to the JV Company until April 2049 and the said Contract is legal and valid.
 - d) The JV Company has been duly incorporated and has full corporate power and legal capacity to carry out on the business specified in the Business Licence.
 - e) According to the Undertaking dated 16 September 2002 given by Luoyang Power Supply Bureau to Shropshire Property Limited, if the JV Company requires, for whatever reason, the land use rights of the subject land having a site area of approximately 9,025.51 sq.m. to be transferred to the JV Company, Luoyang Power Supply Bureau shall assist the JV Company to apply for such transfer and the change of permitted use of such land. It is confirmed that this Undertaking is valid and enforceable and the interest of the JV Company thereunder is protected under the PRC laws.
 - f) After payment of the land premium and completion of the land grant/transfer procedure, the property can be freely transferred, mortgaged or leased to any third party without payment of additional land premium or expenses of substantial sum. There is no legal impediment for the aforesaid application.
12. In the course of our valuation, we have prepared our valuation on the following assumptions:
- a) The JV Company is in possession of a proper legal title to the property and is entitled to transfer the property together with the residual term of its land use rights at no extra land premium and other onerous charges payable to the government;
 - b) All land premium and other costs of resettlement and public utilities services, if any, have already been fully settled;
 - c) The operational period of the JV Company as stated in its business licence can be extended up to a term of 50 years from 22 March 1999 at no other onerous charges payable to the government;
 - d) The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant authorities;
 - e) All the consents, approvals and licences from relevant government authorities for the property have been granted without any onerous conditions or undue delay which might affect the value;
 - f) The property will be reasonably managed by an efficient and effective management team with competent key personnel and technical staff to support its ongoing operation; and
 - g) The property, whether as a whole or on an individual basis, can be disposed of freely to both local and overseas purchasers.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

2. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) 13 January 2004, being the day on which trading in the Shares was suspended pending the issue of the Announcement; and (iii) the Latest Practicable Date.

Date	Share price HK\$
31 July 2003	suspended
29 August 2003	suspended
30 September 2003	suspended
31 October 2003	0.026
28 November 2003	0.020
31 December 2003	0.020
13 January 2004	0.018
Latest Practicable Date	0.015

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period between 11 July 2003, being the date six months prior to the day trading in the Shares was suspended pending the issue of the Announcement, and ending on the Latest Practicable Date were HK\$0.03 on 13 October 2003 and HK\$0.015 on the Latest Practicable Date respectively.

3. ADDITIONAL SHAREHOLDINGS AND DEALINGS

- (a) Save as disclosed in the section headed “Shareholding structure of the Company” in the Letter from the Board, none of the CEL, HIL or their respective Concert Parties, including their respective directors owned any Shares as at the Latest Practicable Date. None of the CEL, HIL or their respective Concert Parties, including their respective directors, had dealt for value in any Shares during the period starting six months prior to the date of the Announcement and ending on the Latest Practicable Date.
- (b) The Company did not own any shares in CEL or HIL as at the Latest Practicable Date and the Company had not dealt for value in any shares in CEL or HIL during the period starting six months prior to the date of the Announcement and ending on the Latest Practicable Date.
- (c) Save as the disposal of Shares by Mr. Chan Yeuk Wai disclosed below, none of the Directors had dealt for value in any Shares during the period starting six months prior to the date of the Announcement and ending on the Latest Practicable Date. Save as disclosed in the paragraph headed “Disclosure of Interests” below, none of the Directors owned any Shares as at the Latest Practicable Date.

Dealings by Mr. Chan Yeuk Wai

Date	Number of Shares	Price
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Disposals:

10 October 2003	232,980,000	0.034 to 0.045
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- (d) None of the Directors had dealt for value in any shares in CEL or HIL during the period starting six months prior to the date of the Announcement and ending on the Latest Practicable Date.

Save for the fact that Dr. Chan is deemed to be interested in approximately 29.4% of the issued share capital of China Strategic, which effectively owned the 3,000,000 supervoting shares and 1,978,830 ordinary common shares in CEL, none of the Directors owned any shares in CEL or HIL as at the Latest Practicable Date.

- (e) No subsidiary of the Company or a pension fund of the Company or of its subsidiaries and any adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code including MasterLink, Tai Fook, their respective ultimate holding companies and any of their respective subsidiaries or fellow subsidiaries owned any Shares as at the Latest Practicable Date.

4. DISCLOSURE OF INTERESTS

I. Interests of Directors

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

(a) *Interests in the Shares*

Name of Director	Long position/ Short position	Capacity	Nature of interest	Number of Shares	Approximate percentage of shareholding
Dr. Chan	Long position	Beneficial owner	Personal interest	17,280,000	0.09%
Mr. Chan Yeuk Wai (Note)	Long position	Interest of controlled corporations and interests held jointly with another person	Corporate and other interests	3,390,664,440	18.51%

Note: Mr. Chan Yeuk Wai is deemed to have corporate and other interests in 3,390,664,440 Shares by virtue of his interests in Hounslow. These interests are duplicated with the interests as shown in the section “Interests of shareholders discloseable pursuant to the SFO” below.

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company and its subsidiaries, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangements which were subsisting at the Latest Practicable Date and were significant in relation to the business of the Group.
- (c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2003 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

II. Interests of Shareholders discloseable pursuant to the SFO

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

(a) *Interests in the Shares*

Name of Shareholder	Long position/ Short position	Capacity	Nature of interest	Number of Shares held	Approximate percentage of shareholding
China Strategic (Note 1(a))	Long position	Interest of controlled corporations	Corporate interest	5,900,000,000	32.21%
CEL (Note 1(a))	Long position	Interest of a controlled corporation	Corporate interest	5,900,000,000	32.21%
Million Good Limited (Note 1(a))	Long position	Beneficial owner	Corporate interest	5,900,000,000	32.21%
Hounslow (Note 2)	Long position	Beneficial owner and interest of controlled corporations	Corporate interest	3,390,664,440	18.51%
Softbank	Long position	Beneficial owner	Corporate interest	986,486,494	5.38%

(b) *Interests in underlying Shares under equity derivatives (as defined in Part XV of the SFO)*

Name of Shareholder	Long position/ Short position	Capacity	Nature of interest	Number of underlying Shares (under unlisted equity derivatives of the Company)	Approximate percentage of the issued share capital of the Company
Mr. Li Ka-shing (Note 3(a))	Long position	Founder of discretionary trusts and interest of controlled corporations	Corporate and other interests	5,250,000,000 (Note 3(b))	28.66%
Li Ka-Shing Unity Trustee Corporation Limited (as trustee of The Li Ka-Shing Unity Discretionary Trust) (Note 3(a))	Long position	Trustee and beneficiary of a trust	Other interest	5,250,000,000 (Note 3(b))	28.66%
Li Ka-Shing Unity Trustcorp Limited (as trustee of another discretionary trust) (Note 3(a))	Long position	Trustee and beneficiary of a trust	Other interest	5,250,000,000 (Note 3(b))	28.66%
Li Ka-Shing Unity Trustee Company Limited (as trustee of The Li Ka-Shing Unity Trust) (Note 3(a))	Long position	Trustee	Other interest	5,250,000,000 (Note 3(b))	28.66%
CKH (Note 3(a))	Long position	Interest of controlled corporations	Corporate interest	5,250,000,000 (Note 3(b))	28.66%

Name of Shareholder	Long position/ Short position	Capacity	Nature of interest	Number of underlying Shares (under unlisted equity derivatives of the Company)	Approximate percentage of the issued share capital of the Company
HWL (Note 3(a))	Long position	Interest of a controlled corporation	Corporate interest	5,250,000,000 (Note 3(b))	28.66%
HIL (Note 3(a))	Long position	Beneficial owner	Corporate interest	5,250,000,000 (Note 3(b))	28.66%
China Strategic (Note 1(a))	Long position	Interest of controlled corporations	Corporate interest	7,750,000,000 (Note 1(b))	42.31%
CEL (Note 1(a))	Long position	Interest of a controlled corporation	Corporate interest	7,750,000,000 (Note 1(b))	42.31%
Million Good Limited (Note 1(a))	Long position	Beneficial owner	Corporate interest	7,750,000,000 (Note 1(b))	42.31%

Notes:

- (1) (a) Million Good Limited is a wholly-owned subsidiary of CEL, whose shares are traded on the OTC Bulletin Board in the United States of America, which in turn is a company owned as to approximately 55.2% effective equity interest and approximately 88.8% effective voting interest by China Strategic. China Strategic and CEL are deemed to be interested in 5,900,000,000 Shares which are held by Million Good Limited. China Strategic and CEL are also deemed to be interested in 7,750,000,000 underlying Shares (in respect of unlisted equity derivatives of the Company) held by Million Good Limited and/or its nominee(s).
- (b) Pursuant to the CN Agreement entered into between CEL and the Company, CEL has agreed to subscribe for or procure the subscription by its nominee(s) of the CEL Convertible Note, subject to fulfillment or waiver of the condition precedents stated therein. At Completion, the proceeds from the subscription of the CEL Convertible Note shall be applied to repay the entire outstanding principal amount of CEL's 2002 CN (together with interest accrued thereon) and thereafter CEL's original certificate of the 2002 CN shall be cancelled. The CEL Convertible Note is convertible into 7,750,000,000 new Shares on full conversion at the initial conversion price of HK\$0.020 per Share (subject to adjustments).
- (2) Hounslow is an investment holding company in which Mr. Chan Yeuk Wai, a non-executive Director, has certain beneficial interests.
- (3) (a) Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited. Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust, together with certain companies which Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited (“TDT1”) as trustee of The Li Ka-Shing Unity Discretionary Trust (“DT1”) and Li Ka-Shing Unity Trustcorp Limited (“TDT2”) as trustee of another discretionary trust (“DT2”). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

Subsidiaries of CKH are entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of HWL. HWL holds the entire issued share capital of HIL.

By virtue of the SFO, HWL, CKH, Li Ka-Shing Unity Trustee Company Limited, Li Ka-Shing Unity Trustcorp Limited, Li Ka-Shing Unity Trustee Corporation Limited and Mr. Li Ka-shing who is the settlor and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, are all deemed to be interested in 5,250,000,000 underlying Shares (in respect of unlisted equity derivatives of the Company) held by HIL and/or its nominee(s).

- (b) Pursuant to the CN Agreement entered into between HIL and the Company, HIL has agreed to subscribe for or procure the subscription by its nominee(s) of the HIL Convertible Note, subject to fulfilment or waiver of the condition precedents stated therein. HIL will satisfy the consideration of the HIL Convertible Note by the surrender of its 2002 CN and the payment by the Company to HIL a sum of HK\$2,824,640 together with the accrued interest up to and including the date of Completion or 14 June 2004 whichever is the earlier. The HIL Convertible Note is convertible into 5,250,000,000 new Shares on full conversion at the initial conversion price of HK\$0.020 per Share (subject to adjustments).

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

So far as is known to the Directors or chief executive of the Company, the following person(s) is 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 other members of the Group as at the Latest Practicable Date:—

Name of subsidiary	Name of shareholder	Percentage of shareholding
Wing On Travel Online Limited	Fullex Limited	20%
Silver Bay Commodities Limited	China Fortune Resources Limited	30%
Apex	Subsidiaries of CSH (<i>Note</i>)	22.65%

Note:

Ruby Enterprises Limited (“Ruby”) directly holds the entire beneficial interest in Wealthy Gain Limited which in turn beneficially owns 16,079,000 shares in Apex. Accordingly, Ruby is deemed to be interested in the same 16,079,000 shares in Apex. China WTO.com Limited (“CWTO”) beneficially owns 11,000,662 shares in Apex and directly holds the entire beneficial interest in Golden Flower Limited (“Golden”) and Expert Commerce Limited (“Expert”). Golden and Expert beneficially own 20,742,000 and 15,000,000 shares in Apex respectively. Accordingly, CWTO is deemed to be interested in 46,742,662 shares in Apex. China Strategic directly holds the entire interest in Ruby and CWTO. Ruby and CWTO are taken to be interested in 16,079,000 and 46,742,662 shares in Apex respectively. Accordingly, China Strategic is deemed to be interested in 62,821,662 shares, representing approximately 22.65% in the issued share capital of Apex.

Save as disclosed above, the Directors or chief executive of the Company are not aware that there is any other persons (not being a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

III. Others

- (a) As at the Latest Practicable Date, MasterLink, RHL Appraisal Ltd., Norton Appraisals Limited, Guangdong Hills & Co. Law Office, Luoyang Hon Fa Law Office or King & Wood PRC Lawyers were not beneficially interested in the share capital of any member of the Group nor any of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) As at the Latest Practicable Date, none of MasterLink, RHL Appraisal Ltd., Norton Appraisals Limited, Guangdong Hills & Co. Law Office, Luoyang Hon Fa Law Office or King & Wood PRC Lawyers had any direct or indirect interest in any assets which had been, since 31 December 2003 (the date to which the latest published audited consolidated accounts of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

4. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

1. the subscription agreement dated 31 May 2002 entered into between Dobetta Enterprises Ltd., an Independent Third Party, and the Company in relation to the subscription of new shares in the Company;
2. the subscription agreement dated 31 May 2002 entered into between Beijing Tourism Group, an Independent Third Party, and the Company in relation to the subscription of new shares in the Company;
3. the second supplemental agreement dated 12 July 2002 entered into between Netking International Corporation, an Independent Third Party, Golden Sun Limited, an indirect subsidiary of the Company, and Shropshire Property Limited, an indirect subsidiary of the Company, to amend certain terms in the sale and purchase agreement dated 26 July 2001 and the supplemental agreement dated 8 April 2002 in relation to (i) 4 ordinary shares and 1,000 preferred shares in the capital of Shropshire Property Limited; and (ii) an option granted by Netking International Corporation to Golden Sun Limited to acquire the remaining shares owned by Netking International Corporation;
4. the deed of indemnity dated 12 July 2002 given by Netking International Corporation in favour of Golden Sun Limited and Shropshire Property Limited;
5. the subscription agreement dated 22 July 2002 entered into between China Velocity Group Limited (formerly known as Rosedale Hotel Group Limited) (“China Velocity”), an Independent Third Party, and the Company in relation to the subscription of 1,000,000,000 new shares in the capital of China Velocity at the consideration of HK\$300,000,000.00;
6. the sale and purchase agreement dated 22 July 2002 entered into between China Velocity and the Company in relation to the entire issued share capital of and the shareholder’s loan of about HK\$44.4 million due to Shropshire Property Limited at the consideration of HK\$110 million which was satisfied by the issue of 366,666,666 new shares in China Velocity;

7. the share sales agreement dated 24 July 2002 entered into between Wing On Travel (BVI) Limited (formerly known as Ananda Wing On Travel (BVI) Limited), a direct subsidiary of the Company, and Comfort Group Ltd., an Independent Third Party, relating to the acquisition of 25 ordinary shares of HK\$10 each and 75,000 non-voting deferred shares of HK\$100 each of the capital of Trans-Island Limousine Service Limited, a former indirect subsidiary of the Company, by Wing On Travel (BVI) Limited at the consideration of HK\$40,000,000.00;
8. the deed of indemnity dated 19 September 2002 given by Wing On Travel (BVI) Limited in favour of Comfort Group Ltd. in relation to the discharge of the proportionate guarantee for Trans-Island Limousine Service Limited made by Comfort Group Ltd.;
9. the extension letters dated 31 October 2002, 15 November 2002 and 30 November 2002 respectively to extend the completion date of the sale and purchase agreement dated 22 July 2002 in paragraph 6 above;
10. the agreement dated 11 December 2002 entered into between an independent joint venture partner and the Company to withdraw from the project of joint development of a piece of land in Chengdu, PRC into a tourist attraction and the joint venture partner would transfer the titles of a total of approximately 3,000 square meters of commercial areas and car parking spaces in a commercial building in Chengdu, the PRC to the Company;
11. the sale and purchase agreement dated 1 April 2003 entered into between Bridge – Star Holdings Ltd., an Independent Third Party, and the Company in relation to the acquisition of the 100% interest in a co-operative joint venture, which will develop and operate a hotel in Guangdong, the PRC by the Company;
12. the letter dated 4 April 2003 from Comfort Group Ltd. to Wing On Travel (BVI) Limited accepting the payment schedule proposed by Wing On Travel (BVI) Limited;
13. the sale and purchase agreement dated 15 June 2003 entered into between the Company and an Independent Third Party to dispose two-third of its rights to the intended interests in the co-operative joint venture as mentioned in paragraph 11 above for HK\$40,000,000.00;
14. the settlement agreement dated 24 June 2003 entered into between Wing On Travel (BVI) Limited and Comfort Group Ltd. in relation to the payment schedule;
15. the sale and purchase agreement dated 9 July 2003 entered into between, inter alia, Velocity International Limited (“Velocity”), an Independent Third Party, and the Company for the acquisition by Velocity for 136,666,666 shares in the capital of China Velocity from the Company at the consideration of HK\$88 million;
16. the sale and purchase agreement dated 15 July 2003 entered into between Asian Universe Limited (name changed to Wing On Travel Finance Limited on 16 April 2004), an indirect subsidiary of the Company, and Swift Millions Limited, an Independent Third Party, in relation to the property situated at 8th Floor, Harcourt House, No. 39 Gloucester Road, Wanchai, Hong Kong;

17. the settlement agreement dated 30 September 2003 between Japan Air System Hong Kong Limited (“JASHK”), an Independent Third Party, and the Company (“Settlement Agreement”) in which it is stated that JASHK’s position is that there is not in existence any agreement or understanding, whether written or oral, in connection with any subscription by JASHK of Shares. The Settlement Agreement also states that the Company’s position is that there is in existence a document stated to be dated 31 May 2002 relating to a subscription by JASHK of Shares as well as a document that stated that the completion date for such subscription had been extended. The Settlement Agreement provides that such disputed documents do not have any effect. There is no monetary consideration for the Settlement Agreement;
18. the sale and purchase agreement dated 24 September 2003 entered into between Golden Sun Limited and Newhost Asia Limited, an Independent Third Party, in relation to the sale and purchase of 100% of the issued share capital of and loan to Sinomatrix Limited, an indirect subsidiary of the Company;
19. the agreement dated 25 October 2003 entered into between Kwoon Chung Buses Investment Limited, an Independent Third Party, Kwoon Chung Bus Holdings Limited, an Independent Third Party, Wing On Travel (BVI) Limited and the Company in relation to the sale and purchase of the entire issued share capital in Trans-Island Limousine Service Limited;
20. the guarantee dated 12 December 2003 executed by the Company in favour of Hutchison Hotels Holdings (International) Limited (“HHHI”), an Independent Third Party, in respect of a loan note dated 2 December 2002 executed by Clever Basin Holdings Limited, an indirect subsidiary of the Company, in favour of HHHI;
21. the sale and purchase agreement dated 12 December 2003 entered into between Wing On Travel (BVI) Limited, the Company and an Independent Third Party to dispose the remaining one-third of its rights to the intended interests in the co-operative joint venture as mentioned in paragraphs 11 and 13 above;
22. the share mortgage dated 16 December 2003 granted by Velocity in favour of the Company in respect of the 136,666,666 shares in China Velocity as security for payment of the balance of the consideration of HK\$68 million as mentioned in paragraph 15 above;
23. CN Agreements;
24. the subscription agreement dated 13 January 2004 entered into between the Company and CSIL, a 2002 CN holder, in respect of an issue of convertible note by the Company;
25. the subscription agreement dated 13 January 2004 entered into between the Company and Mr. Yu Kam Yuen, Lincoln, a younger brother of Mr. Yu Kam Kee, Lawrence (a Director), in respect of an issue of convertible note by the Company;
26. the subscription agreement dated 13 January 2004 entered into between the Company and Citiway Investments Limited, an Independent Third Party, in respect of an issue of convertible note by the Company;
27. the subscription agreement dated 13 January 2004 entered into between the Company and Great Honest Investment Company Limited, an Independent Third Party, in respect of an issue of convertible note by the Company;

28. the sale and purchase agreement dated 1 March 2004 entered into between Moreton International Limited, an indirect subsidiary of the Company, and Huge Glory Industrial Limited, an Independent Third Party, in relation to the property situated at Units 2101 and 2102 (including the Flat Roofs) on 21st Floor, and Units 2201 and 2202 (including the Flat Roofs) on 22nd Floor, Seaview Commercial Building, Nos. 21-24 Connaught Road West and Nos. 43, 45 and 47 New Market Street, Hong Kong;
29. the termination agreement dated 17 March 2004 entered into between the Company and CSIL to terminate the subscription agreement dated 13 January 2004 as mentioned in paragraph 24 above;
30. the termination agreement dated 17 March 2004 entered into between the Company and Mr. Yuen Kam Yuen, Lincoln to terminate the subscription agreement dated 13 January 2004 as mentioned in paragraph 25 above;
31. the termination agreement dated 17 March 2004 entered into between the Company and Citiway Investments Limited to terminate the subscription agreement dated 13 January 2004 as mentioned in paragraph 26 above;
32. the termination agreement dated 17 March 2004 entered into between the Company and Great Honest Investment Company Limited to terminate the subscription agreement dated 13 January 2004 as mentioned in paragraph 27 above;
33. the guarantee dated 17 March 2004 together with other banking facilities documents executed by the Company and/or its subsidiaries in favour of The Hongkong and Shanghai Banking Corporation Limited (the “Bank”) in respect of the banking facilities provided by the Bank to Concord Way Limited, an associated company of the Company;
34. a guarantee dated 18 March 2004 executed by the Company in favour of Citic Ka Wah Bank Limited (the “Bank”) in respect of the banking facilities provided by the Bank to Hey Wealth Limited, an indirect subsidiary of the Company;
35. a supplemental deed of variation dated 18 March 2004 entered into between Hey Wealth Limited, Rosedale Park Limited, an indirect subsidiary of the Company, the Bank, China Velocity, the Company and Apex to modify, vary and amend the loan agreement dated 2 April 2001;
36. the agreement dated 30 March 2004 entered into between Millennium Target Holdings Limited, an indirect subsidiary of the Company, CSI Property Holdings Limited, an Independent Third Party, and Mr. Kiow Kim Yoon, an Independent Third Party, as Vendors and Solar Legend Investment Limited, an Independent Third Party, as Purchaser in respect of the sale and purchase of the entire issued share capital of Universe Point Limited, an indirect subsidiary of the Company, Linkpower Worldwide Inc., an Independent Third Party, and Norton Network Assets Inc, an Independent Third Party; and
37. the Supplemental Agreements.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. SERVICE CONTRACTS

Each of Mr. Chan Yeuk Wai and Ms. Luk Yee Lin, Ellen (all being Directors) has entered into a service agreement with the Company on 22 September 1997 with a fixed salary at the annual rate of HK\$1,800,000 and HK\$663,600 respectively and is continuing unless and until terminated by not less than one month's prior notice in writing. Such remuneration shall include a year-end bonus of an amount to be determined by the Board and decided by the majority in number of the members of the Board provided that the Director in question shall abstain from voting and shall not be counted in the quorum at any meeting of the Board at which the Board is to determine the amount payable to him/her and that the aggregate amount year-end bonuses payable to the Director in question and the other executive Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profits after taxation and minority interests but before extraordinary and exceptional items of the Group of the same financial year.

Save as disclosed above, none of the Directors has entered, or is proposing to enter, into a service contract with the Company or any of its subsidiaries or associated companies which is not determinable by the Group within one year without payment of compensation other than statutory compensation; and no service contracts had been entered into or amended within 6 months prior to the date of the Announcement.

7. QUALIFICATIONS

The qualification of the experts who have given opinions in this circular and whose names are included in this circular are as follows:

Name	Qualification
MasterLink	a deemed licensed corporation to carry out types 1, 4, 6 and 9 regulated activities under the SFO
RHL Appraisal Ltd.	professional property valuers
Norton Appraisals Limited	professional property valuers
Guangdong Hills & Co. Law Office	PRC legal advisers
Luoyang Hon Fa Law Office	PRC legal advisers
King & Wood PRC Lawyers	PRC legal advisers

8. CONSENTS

Each of MasterLink, RHL Appraisal Ltd., Norton Appraisals Limited, Guangdong Hills & Co. Law Office, Luoyang Hon Fa Law Office and King & Wood PRC Lawyers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letters or reports or valuation certificates in the form and context in which they respectively appear.

9. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is located at 7th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- (c) The Hong Kong branch share registrars and transfer office of the Company are Secretaries Limited located at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The registered office of CEL is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (e) The registered office of HIL is located at Hutchison House, 22nd Floor, 10 Harcourt Road, Hong Kong.
- (f) The directors of China Strategic comprise Dr. Chan, Dr. Yap, Allan, Mr. Li Wa Kin, Ms. Chau Mei Wah, Rosanna, Ms. Chan Ling, Eva, Mr. David Edwin Bussmann, Ms. Fung Wan Yiu, Agnes, Mr. Chan Kwok Hung (alternate to Dr. Chan) and Mr. Lui Siu Tsuen, Richard (alternate to Dr. Yap, Allan).
- (g) The directors of CEL comprise Dr. Chan, Dr. Yap, Allan, Ms. Dorothy Law, Mr. Lien Kait Long, Mr. Richard Whittall and Mr. David Edwin Bussmann.
- (h) The directors of CKH comprise Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, Mr. George Colin Magnus, Mr. Kam Hing Lam, Mr. Chung Sun Keung, Davy, Mr. Ip Tak Chuen, Edmond, Ms. Pau Yee Wan, Ezra, Ms. Woo Chia Ching, Grace, Mr. Chiu Kwok Hung, Justin, Mr. Leung Siu Hon, Mr. Fok Kin-ning, Canning, Mr. Frank John Sixt, Mr. Chow Kun Chee, Roland, Ms. Wong Yick-ming, Rosanna, Ms. Hung Siu-lin, Katherine, Mr. Yeh Yuan Chang, Anthony, Mr. Chow Nin Mow, Albert, Mr. Simon Murray and Mr. Kwok Tun-li, Stanley.
- (i) The directors of HWL comprise Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, Mr. Fok Kin-ning, Canning, Mrs. Chow Woo Mo Fong, Susan, Mr. Frank John Sixt, Mr. Lai Kai Ming, Dominic, Mr. George Colin Magnus, Mr. Kam Hing Lam, Mr. Michael David Kadoorie, Mr. Simon Murray, Mr. Or Ching Fai, Raymond, Mr. William Shurniak, Mr. Peter Alan Lee Vine and Mr. Wong Chung Hin.
- (j) The directors of HIL comprise Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor, Mr. Fok Kin-ning, Canning, Mrs. Chow Woo Mo Fong, Susan, Mr. Frank John Sixt, Mr. Lai Kai Ming, Dominic, Mr. George Colin Magnus, Mr. Kam Hing Lam, Mr. Donald Jeffrey Roberts and Ms. Edith Shih.
- (k) The company secretary of the Company is Ms. Kam Yiu Sai, Florence, who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (l) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

- (m) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the CN Subscribers and any other persons for the transfer of the beneficial interests in the Shares to be issued under the conversion of the Convertible Notes.
- (n) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between (i) CEL, HIL or any of their respective Concert Parties and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Issue and the Whitewash Waiver application.
- (o) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Issue and the Whitewash Waiver application.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 7th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong up to and including the date of the SGM:

- (a) the memorandum of association and new bye-laws of the Company;
- (b) the annual reports of the Company for each of the year ended 31 March 2002, the nine months ended 31 December 2002 and the year ended 31 December 2003;
- (c) the letter from MasterLink to the independent Shareholders, the text of which is set out on pages 24 to 37 of this circular;
- (d) the letters, summary of valuations and valuation certificates from each of RHL Appraisal Ltd. and Norton Appraisals Limited, the texts of which are set out in Appendix II to this circular;
- (e) the PRC legal opinions issued by Guangdong Hills & Co. Law Office, Luoyang Hon Fa Law Office and King & Wood PRC Lawyers, the legal advisers to the Company on PRC law in relation to certain PRC properties of the Group as referred to in Appendix II to this circular;
- (f) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (g) the service contracts referred to in the paragraph headed “Service contracts” in this Appendix; and
- (h) the written consents referred to in the paragraph headed “Consents” in this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



WING ON TRAVEL (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Wing On Travel (Holdings) Limited (the “Company”) will be held at 8th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong on Tuesday, 8 June 2004 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the conditional agreement dated 13 January 2004 together with the supplemental agreements dated 17 March 2004 and 4 May 2004 (collectively, the “**CEL Agreement**”), a copy of each of these agreements has been produced to the meeting and marked “A” and initialled by the Chairman of the meeting for the purpose of identification, made between China Enterprises Limited and the Company pursuant to which the Company shall issue a convertible note in the principal amount of HK\$155,000,000 at 2% per annum to China Enterprises Limited or its nominee(s) at its face value (the “**CEL Convertible Note**”) subject to the terms and conditions of the CEL Agreement be and is hereby ratified, confirmed and approved;
- (b) the conditional agreement dated 13 January 2004 together with the supplemental agreements dated 17 March 2004 and 4 May 2004 (collectively, the “**HIL Agreement**”), a copy of each of these agreements has been produced to the meeting and marked “B” and initialled by the Chairman of the meeting for the purpose of identification, made between Hutchison International Limited and the Company pursuant to which the Company shall issue a convertible note in the principal amount of HK\$105,000,000 at 2% per annum to Hutchison International Limited or its nominee(s) at its face value (the “**HIL Convertible Note**”) subject to the terms and conditions of the HIL Agreement be and is hereby ratified, confirmed and approved;
- (c) the directors of the Company (“**Directors**”) be and are hereby authorised to issue the CEL Convertible Note and the HIL Convertible Note and allot and issue the shares of par value HK\$0.01 each in the capital of the Company upon the exercise of the conversion rights under the CEL Convertible Note or the HIL Convertible Note on and subject to the terms and conditions thereof; and
- (d) any one Director be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated under the CEL Agreement and/or the HIL Agreement and to waive compliance from and agree to any amendment to any of the terms of such agreements which in the opinion of such Director(s) is not of a material nature and is in the interests of the Company.”

NOTICE OF SPECIAL GENERAL MEETING

2. “**THAT** subject to the passing of resolution no.1 set out in the notice convening the special general meeting at which this resolution is proposed, a waiver (“**Whitewash Waiver**”) in respect of any obligation of China Enterprises Limited, Hutchison International Limited and their respective concert parties (within the meaning of The Hong Kong Code on Takeovers and Mergers (the “Takeovers Code”) to make a mandatory unconditional general offer to the shareholders of the Company for all the issued shares of the Company not already owned or agreed to be acquired by any of them that would otherwise arise under Rule 26 of the Takeovers Code as a result of completion of the CEL Agreement (as defined in the said resolution no.1) and the HIL Agreement (as defined in the said resolution no.1) and/or issue of shares of the Company upon exercise of all (or relevant part) of the conversion rights attaching to the CEL Convertible Note and/or the HIL Convertible Note (as such terms are defined in the said resolution no.1) be and is approved, and the Directors be and are hereby authorised for and on behalf of the Company to take all steps necessary or expedient in their opinion in connection with the Whitewash Waiver.”

By order of the Board of
Wing On Travel (Holdings) Limited
Lui Siu Tsuen, Richard
Executive Director

Hong Kong, 24 May 2004

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:

7th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and 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 at the head office and principal place of business of the Company at 7th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
4. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Code on Takeovers and Mergers, all resolutions will be determined by way of a poll.