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

If you have sold all your shares in 139 Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser. This circular is not and does not constitute an offer of, nor is it intended to invite offer for, the securities in 139 Holdings Limited.

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**139 HOLDINGS LIMITED****(139控股有限公司)****(Incorporated in Bermuda with limited liability)***(Stock Code : 139)**

**VERY SUBSTANTIAL ACQUISITION –
ENTERING INTO OF THE SP AGREEMENT
IN RESPECT OF THE PROPOSED ACQUISITION OF
EQUITY INTEREST IN A MACAU HOTEL COMPANY**

A notice convening the Special General Meeting of 139 Holdings Limited to be held at Basement Function Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 27 June 2005, at 9:00 a.m. is set out on pages 154 to 155 of this circular. A form of proxy for use at the Special General Meeting is also enclosed.

Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Share Registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.

* For identification purposes only

10 June 2005

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DEFINITIONS

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

“associates”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Best Effort Placing”	the placing of 2,000,000,000 new Shares under the Best Effort Placing Agreement
“Best Effort Placing Agreement”	the placing agreement entered into between the Company and the Placing Agent dated 27 January 2005 in relation to the placing of 2,000,000,000 new Shares on a best effort basis with its long stop date extended from 2 June 2005 to 2 September 2005
“business day(s)”	means a day other than a Saturday, Sunday or a public holiday on which banks are open in Hong Kong to the general public for business
“China Travel Service”	China Travel Service (Hong Kong) Limited, a company incorporated on 10 June 1954 in Hong Kong with limited liability and indirectly wholly-owned by CTII
“Company”	139 Holdings Limited (stock code: 139), a company incorporated in Bermuda with limited liability
“Completion”	completion of the Proposed Acquisition in accordance with the terms and conditions of the SP Agreement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration”	HK\$500.0 million, being the aggregate consideration payable by Walterford to the Vendors pursuant to the SP Agreement
“Convertible Notes”	convertible notes in the aggregate principal amount of HK\$250.0 million to be issued by the Company
“CTII”	China Travel International Investment Hong Kong Limited (stock code: 308), a company incorporated on 21 July 1992 in Hong Kong with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange

DEFINITIONS

“CTSH”	China Travel Service (Holdings) Hong Kong Limited, a company incorporated on 29 October 1985 in Hong Kong with limited liability and the ultimate holding company of CTII
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Proposed Acquisition
“Findco Enterprises”	Findco Enterprises Limited, a company incorporated on 28 August 1996 in Western Samoa with limited liability and a wholly-owned subsidiary of China Travel Service, is a nominee company of China Travel Service which holds 10% of the equity interest in SDFP
“Fully Underwritten Placing”	the placing of 2,000,000,000 new Shares under the Fully Underwritten Placing Agreement
“Fully Underwritten Placing Agreement”	the placing agreement entered into between the Company and the Placing Agent dated 27 January 2005 in relation to the placing of 2,000,000,000 new Shares on a fully underwritten basis which was completed on 14 March 2005
“Grand Tour & Travel”	Grand Tour and Travel Service Company Limited, a wholly-owned subsidiary of CTII
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Last Trading Date”	19 January 2005, being the last full trading day of the Shares before the date of the Company’s announcement dated 27 January 2005 in relation to the Preliminary Agreement
“Latest Practicable Date”	3 June 2005, being the latest practicable date for ascertaining certain information included in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC

DEFINITIONS

“Management Agreement”	the hotel management agreement to be entered into between SDFP and the Vendors (or their assignee) upon Completion
“MOP”	Macau Pataca, the lawful currency of Macau
“Net Asset Value”	the net asset value of SDFP of approximately HK\$60.5 million as at 31 December 2004
“Placing”	together, the placing of 2,000,000,000 new Shares under the Fully Underwritten Placing Agreement and the placing of 2,000,000,000 new Shares under the Best Effort Placing Agreement
“Placing Agent”	Tai Fook Securities Company Limited, a licensed corporation to carry on regulated activities 1, 3 and 4 for the purpose of the SFO
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, Macau and Taiwan
“Preliminary Agreement”	the legally binding preliminary sale and purchase agreement dated 19 January 2005 and entered into between Walterford and China Travel Service setting out the preliminary terms between the parties thereto in connection with the Proposed Acquisition
“Proposed Acquisition”	the proposed acquisition by Walterford from the Vendors of the entire issued share capital of SDFP and the Shareholder’s Loan pursuant to the Preliminary Agreement and the SP Agreement which prevails the Preliminary Agreement
“SDFP”	Sociedade De Fomento Predial Fu Wa (Macau) Limitada, a company incorporated on 19 September 1988 in Macau which CTII holds an indirect 100% equity interest
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM” or “Special General Meeting”	the special general meeting of the Shareholders to be convened and held to consider and, if thought fit, to approve the SP Agreement and the transactions contemplated therein
“Shares”	share(s) of the Company of HK\$0.01 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Shareholder’s Loan”	the shareholder’s loan of approximately HK\$420.0 million owed to China Travel Service by SDFP as at 31 December 2004
“SP Agreement”	the sale and purchase agreement entered into, among others, between Walterford and the Vendors in relation to the Proposed Acquisition dated 2 February 2005
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Total Effective Consideration”	the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commission, discounts and expenses paid, allowed or incurred in connection with the issue of Shares
“Vendors”	China Travel Service and Findco Enterprises
“Walterford”	Walterford Company Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent.

LETTER FROM THE BOARD



139 HOLDINGS LIMITED **(139控股有限公司)***

(Incorporated in Bermuda with limited liability)

Executive Directors:

Wong Howard (*Chief Executive Officer*)
Wong Yat Fai
Wu Qing

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Non-executive Directors:

Li Chi Ming
Tung Tat Chiu, Michael
Wan Ngar Yin, David

*Principal Place of Business
in Hong Kong:*

Room 1603-5
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

10 June 2005

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION –
ENTERING INTO OF THE SP AGREEMENT
IN RESPECT OF THE PROPOSED ACQUISITION OF
EQUITY INTEREST IN A MACAU HOTEL COMPANY**

INTRODUCTION

On 19 January 2005, Walterford, a wholly-owned subsidiary of the Company entered into the Preliminary Agreement with China Travel Service, an indirect wholly-owned subsidiary of CTII, pursuant to which Walterford conditionally agreed to acquire the entire equity interest in SDFP at a consideration of HK\$500.0 million. On 2 February 2005, Walterford entered into the SP Agreement, which prevails the Preliminary Agreement, with the purpose to reflect the new information available and allow the parties to negotiate better terms after the signing of the Preliminary Agreement, with the Vendors, namely China Travel Service and Findco Enterprises, in relation to the Proposed Acquisition to acquire the entire equity interest in SDFP and the Shareholder's Loan for an aggregate consideration of HK\$500.0 million.

* For identification purposes only

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A summary of the differences in the principal terms between the Preliminary Agreement and the SP Agreement is set out below:

- (i) China Travel Service is the only vendor in the Preliminary Agreement and there are two vendors, namely China Travel Service and Findco Enterprises, in the SP Agreement. Also, the Company and CTII, which holds an indirect 100% equity interests in the Vendors, have been joined as parties to the SP Agreement to guarantee the performance of the obligations of Walterford and the Vendors respectively;
- (ii) it is stated in the Preliminary Agreement that the HK\$25.0 million deposit will be placed in an escrow account upon signing of the formal SP agreement and will be released to China Travel Service within 14 days after Walterford is satisfied with the relevant due diligence result, whereas in the SP Agreement, the HK\$25.0 million deposit will be placed in an escrow account within two business days from the date the title deeds are provided to Walterford and that the same will be paid to China Travel Service upon Completion;
- (iii) as a condition in the Preliminary Agreement, SDFP shall have at least HK\$30.0 million net current asset, excluding Shareholder's Loan, as at the date of Completion and China Travel Service shall be entitled to divest such other assets of SDFP at book value back to China Travel Service before Completion; this is not a condition in the SP Agreement;
- (iv) as a condition in the SP Agreement, Walterford will have to satisfy at its absolute discretion with the results of the due diligence review to be conducted; this is not a condition in the Preliminary Agreement;
- (v) as a condition in the SP Agreement, the Shares shall continue to be traded on the Stock Exchange (but any temporary suspension not exceeding 35 consecutive trading days (as defined in the Listing Rules) excluded) and no indication being received by the Company on or before the date of Completion from (i) the Stock Exchange indicating that it shall object to the continued listing of the Shares and (ii) the SFC indicating that it shall exercise its powers under Part 3 of the Securities and Futures (Stock Market Listing) Rules; this is not a condition in the Preliminary Agreement;
- (vi) in the SP Agreement, Completion is conditional upon the conditions being satisfied or waived by Walterford in the case of the condition relating to satisfaction of the due diligence results as stated above, on or before the date being the earlier of (i) 34 business days from the date of the SP Agreement and (ii) 20 business days from the date the title deeds are supplied to Walterford or in the case of the other conditions as stated above, 2 June, 2005 (or such later date(s) as the parties may agree); this is different from the term in the Preliminary Agreement which provides no long stop date for the fulfillment of the conditions set out in the Preliminary Agreement and

LETTER FROM THE BOARD

the Preliminary Agreement shall expire on 2 February, 2005 (or such later date as the parties may agree) or upon the execution of the SP Agreement; and

- (vii) in the SP Agreement, it is stated that the Consideration will be adjusted downward on a dollar-to-dollar basis should the net current asset value (being the current assets of SDFP less its current liabilities as at the date of Completion) of the accounts of SDFP be less than HK\$30.0 million (excluding Shareholder's Loan) and vice versa; this is not a term in the Preliminary Agreement.

The Consideration amounts to HK\$500.0 million and will be settled as to (i) HK\$250.0 million in cash, of which HK\$25.0 million was placed in an escrow account as deposit within two business days from the date the title deeds are provided to Walterford. The deposit will represent part payment of the Consideration; and (ii) Convertible Notes in the aggregate principal amount of HK\$250.0 million.

The Proposed Acquisition under the SP Agreement constitutes a very substantial acquisition for the Company under the Listing Rules and will be subject to, inter alia, approval of the Shareholders at the SGM. The purpose of this circular is to provide, among other things, further information in relation to the Proposed Acquisition together with the notice of SGM for considering and, if thought fit, to approve the SP Agreement and the issue of the Convertible Notes and the allotment and issue of the Shares pursuant to the Convertible Notes.

THE PROPOSED ACQUISITION

SP Agreement

Date: 2 February 2005

Purchaser: Walterford, a wholly-owned subsidiary of the Company.

Vendors: (1) China Travel Service; and
(2) Findco Enterprises, a nominee company of China Travel Service which holds 10% of the equity interests in SDFP.

Based on the annual report for the year ended 31 December 2004 of CTII dated 11 April 2005

As informed by the Vendors, CTII holds an indirect 100% equity interests in the Vendors, which in turn, together hold 100% equity interests in SDFP. According to the 2004 annual report of CTII, CTSH is the direct holding company of CTII, and the entire issued share capital of CTSH is beneficially owned by China Travel Service Head Office of the PRC.

LETTER FROM THE BOARD

The Company confirms that, to the best of the Directors' knowledge and after having made all reasonable enquiries, the Vendors and their ultimate beneficial owners are third parties independent of the Company and its connected persons and are not connected persons of the Company.

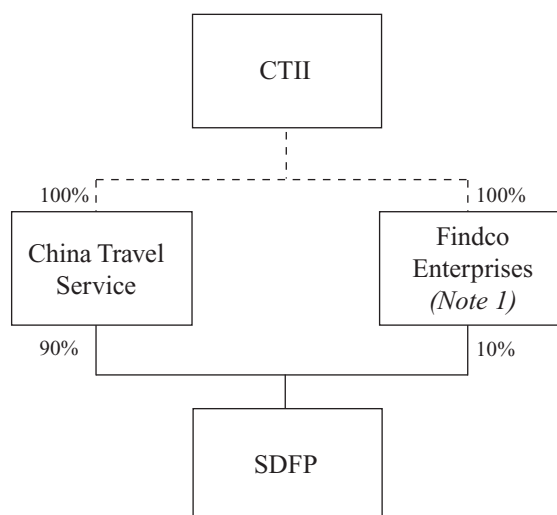
Assets to be acquired

- (i) the entire issued share capital of SDFP; and
- (ii) the Shareholder's Loan owed to China Travel Service by SDFP which amounted to approximately HK\$420.0 million as shown in the audited accounts of SDFP as at 31 December 2004. The SP Agreement does not impose any restrictions in relation to the amount of the Shareholder's Loan, and as at 30 April 2005, the amount of the Shareholder's Loan was approximately HK\$420.0 million. The Directors expect there will be no substantial change in the amount of the Shareholder's Loan before Completion.

SDFP is the owner and operator of Hotel Grandeur Macau. Based on the representation of China Travel Service and the audited financial information of SDFP, the principal assets of SDFP are its 100% interest in Hotel Grandeur Macau, a four-star hotel in Macau, dormitory and parking lots. Upon Completion, SDFP will be wholly-owned by the Group.

The charts below illustrate the shareholding structure of SDFP before and after the Proposed Acquisition:

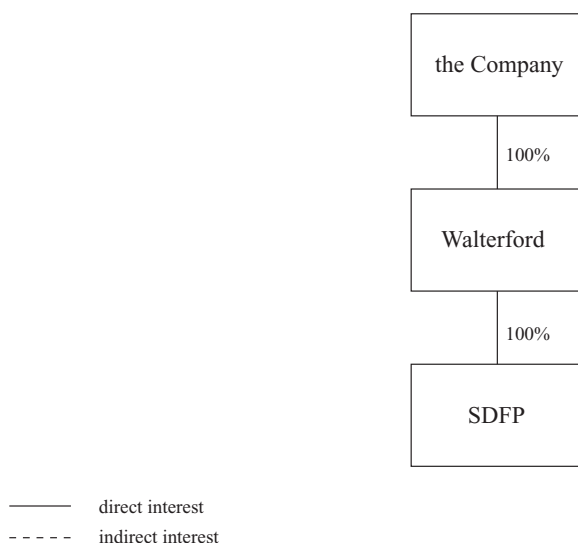
Before the Proposed Acquisition



Note 1: Findco Enterprises as a nominee company.

LETTER FROM THE BOARD

After the Proposed Acquisition



Consideration

The Consideration (*Note 2*) amounts to HK\$500.0 million and will be settled as follows:

- (i) HK\$250.0 million in cash, of which HK\$25.0 million deposit was placed in an escrow account within two business days from the date the title deeds are provided to Walterford. The deposit of HK\$25.0 million, which was financed by cash resources, was paid on 18 February 2005 and represents part payment of the Consideration; and
- (ii) Convertible Notes in the aggregate principal amount of HK\$250.0 million.

The cash portion of the Consideration for HK\$225.0 million (net of HK\$25.0 million deposit) will be financed by all of the Group's existing cash resources of HK\$198.6 million and the balance of approximately HK\$26.4 million through liquidation of about 11.6% of the Group's investment securities (the "Securities") with market value of about HK\$228.3 million as at the Latest Practicable Date, as and when necessary. There are 22 Hong Kong listed stocks in the investment securities portfolio of the Group and the attributable value of each stock in terms of the total market value of the Group's investment securities as at the Latest Practicable Date varied from about 1% to about 34% to the total market value of the total investment of securities of the Group, and the percentage shareholdings of the Group in the 22 listed stocks held by it ranged from approximately of 0.001% to approximately 4.700%. The market value and the book value of the listed Securities as at 30 September 2004 were both approximately HK\$154.7 million.

Note 2: In the SP Agreement, it is stated that the Consideration will be adjusted downward on a dollar-to-dollar basis should the net current asset value (being the current assets of SDFP less its current liabilities as at the date of Completion) of the accounts of SDFP be less than HK\$30.0 million (excluding Shareholder's Loan) and vice versa

LETTER FROM THE BOARD

The following is a summary of cash flow of the Group during the period from 31 March 2004 to the Latest Practicable Date:–

	<i>HK\$ million</i>
Cash reserve as at 31 March 2004	25.7
Operating cash flow during the period from 31 March 2004 to the Latest Practicable Date but before (i) proceeds from Fully Underwritten Placing (ii) unsecured and non-guaranteed loans, (iii) cash deposit and (iv) professional expenses (a)	45.5
Proceeds from Fully Underwritten Placing (b)	62.4
Unsecured and non-guaranteed loans (c)	90.0
Cash deposit paid on 18 February 2005	(25.0)
Cash reserve as at the Latest Practicable Date	<u>198.6</u>

<i>Note (a) Professional expenses</i>	<i>HK\$</i>
Audit and financial advisory	650,000
HK and Macau lawyers	580,000
Property valuation and others	133,000
Stamp duty and registration cost	1,400,000
Estimated total	<u>2,763,000</u>

The estimated professional and related expenses will be satisfied by (i) internally generated funds from the Group's operations, or (ii) proceeds from the disposal of the Group's investment securities or (iii) funds raised from equity or debt financing or re-financing arrangement.

- (b) approximately HK\$62.4 million from proceeds of the placing of 2,000 million Shares on a fully underwritten basis announced on 27 January 2005 and completed on 14 March 2005.
- (c) unsecured loan and non-guaranteed loan obtained from two independent financial institutes for a total of HK\$90.0 million (including HK\$30.0 million obtained on 12 May 2005 and to be repaid on or before 11 February 2006 at an interest rate of Hong Kong dollar prime rate plus 3.5% p.a. and HK\$60.0 million obtained on 20 May 2005 and to be repaid on or before 31 July 2006 at an interest rate of Hong Kong dollar prime rate plus 5% p.a.). Pursuant to the respective loan agreements, the Group has the discretion to repay the loans on or before their respective maturity dates and the independent financial institutes have no discretion to demand early repayment of the loans before their respective maturity dates.

As part of its fund management of the Group over the years the Group has, except for the funds which are required for its day-to-day operations, invested its excess fund in listed securities in Hong Kong. Though the listed securities are not cash or cash equivalents, in the opinion of the Directors, they can be liquidated as and when necessary in the open market and

LETTER FROM THE BOARD

converted into cash and cash equivalents within a relatively short period of time. The Securities represent a major portion of the Group's current assets. In structuring the Proposed Acquisition, the Directors have carefully considered the working capital requirements of the Group and that the Proposed Acquisition will only utilise part of the working capital of the Group.

The Consideration has been agreed between Walterford and the Vendors after arm's length negotiation. The Directors have considered that the Group suffered audited net loss of approximately HK\$46.8 million and HK\$64.7 million for the year ended 31 March 2002 and 2003 respectively, though the Group recorded audited net profit after tax of approximately HK\$1.2 million for the year ended 31 March 2004. The losses arose in the previous two years ended 31 March 2003 were principally from the Group's operating business. In order to diversify and enhance its income stream, the Proposed Acquisition represents a business opportunity for the Group to diversify its business into hotel operation in Macau and will enhance the income stream of the Group.

As at the Latest Practicable Date, the Group's working capital comprised principally cash and cash equivalents in the amount of about HK\$198.6 million and listed securities in the amount of about HK\$228.3 million. The Directors consider that part of the aforesaid amounts will be utilised to satisfy the cash portion of the Consideration (which amounts to HK\$225.0 million) and to repay the unsecured loans of HK\$90 million in aggregate obtained by the Group in May 2005 to finance the Proposed Acquisition. The Directors consider that the remaining balance of about HK\$111.9 million will be sufficient to finance the future working capital requirements of the Enlarged Group.

As stated in the announcement of the Company dated 27 January 2005, the total net proceeds from the placing of 2,000,000,000 Shares pursuant to the Fully Underwritten Placing Agreement, which was completed on 14 March 2005, of approximately HK\$62.4 million will be totally used for the Proposed Acquisition. Furthermore, if the Best Effort Placing is completed by the extended long stop date, i.e. 2 September 2005, the proceeds from the placing of a further 2,000,000,000 Shares from the Best Effort Placing of approximately HK\$63.0 million will be used for the general working capital of the Enlarged Group. The Directors will carefully monitor the financial position of the Enlarged Group and where appropriate, the Company may conduct equity/debt financing. **Such equity/debt financing (if conducted) will be subject to the market conditions at the relevant time and therefore may or may not be successfully materialised.**

The Directors consider that the unsecured loans of HK\$30.0 million and HK\$60.0 million, which will be due on 11 February 2006 and 31 July 2006 respectively (the "Repayment Dates") will be satisfied by (i) internally generated funds from the Group's operations, or (ii) proceeds from the disposal of the Group's investment securities or (iii) funds raised from equity or debt financing or re-financing arrangement.

LETTER FROM THE BOARD

Although the Group will utilise all of its existing available cash resources, part of the Group's investment securities will need to be realised to satisfy the Consideration and the unsecured loans for a total of HK\$90.0 million, the Directors are of the view that the potential benefits from the Proposed Acquisition outweigh the potential financial risk that the Group may expose to as the Directors are optimistic that the Group will be able to generate sufficient cash flows from its hotel business. Where necessary the Group will continue to dispose of its investment securities, which are marketable, and new funds may be raised from new equity or debt financing or re-financing arrangement.

The Consideration of HK\$500.0 million was determined with reference to the agreed valuation of Hotel Grandeur Macau of HK\$470.0 million at the time of signing the SP Agreement and the term regarding the HK\$30.0 million net current asset value (being the current assets of SDFP less its current liabilities as at the date of Completion) of the accounts of SDFP as set out in the SP Agreement. At the time of signing the SP Agreement, the Directors had obtained a preliminary valuation on Hotel Grandeur Macau by RHL Appraisal Ltd. for reference purpose, which valued the same at about HK\$520.0 million as at 1 February 2005. According to the valuation report as set out in Appendix IV, the carrying value of the hotel property as at 31 December 2004 was approximately HK\$490.0 million and the valuation of the hotel property as at 31 March 2005 was HK\$520.0 million. The Directors (including the independent non-executive Directors) consider the terms and conditions under the SP Agreement are fair and reasonable and in the best interest of the Group.

Comparing the Consideration of HK\$500.0 million with the aggregate amount of the audited Net Asset Value of approximately HK\$60.5 million and the Shareholder's Loan of approximately HK\$420.0 million as at 31 December 2004 in the amount of approximately HK\$480.5 million as set out in Appendix II to this circular, the Consideration of HK\$500.0 million represents a premium of approximately 4.1% to the aggregate amount of the audited Net Asset Value and the Shareholder's Loan as at 31 December 2004.

Comparing the agreed valuation of HK\$470.0 million with the HK\$520.0 million valuation of Hotel Grandeur Macau as at 31 March 2005 as set out in Appendix IV to this circular, the HK\$520.0 million represents a premium of 10.6% over the agreed valuation of Hotel Grandeur Macau of HK\$470.0 million.

Based on the audited net profit after tax of HK\$20.1 million of SDFP for the year ended 31 December 2004, the Consideration of HK\$500.0 million would represent a historical price-earnings multiple ("PE multiple") of approximately 24.9 times. In assessing the fairness and reasonableness of the Consideration, the Company has reviewed the PE multiples of 8 selected companies listed on the Stock Exchange (the "Comparables") which are considered to be comparable to the hotel business of SDFP. The PE multiples have been used in our comparison as they are commonly used valuation indicators for hotel companies. A summary of the relevant historical trading multiples of the Comparables as at the Latest Practicable Date is set out as below.

LETTER FROM THE BOARD

Information on the Comparables

Stock name (Note)	Stock code	Relevant financial year end	Market capitalisation as at 8 June 2005	PE multiples	Net profit after tax	Location of hotels/ resorts (managed or owned)
Regal Hotels International Holdings Ltd.	78	31/12/2004	5,593,404,695	8.99	HK\$602,900,000	Hong Kong and the PRC
The Hong Kong and Shanghai Hotels, Ltd.	45	31/12/2004	11,179,301,313	19.30	HK\$574,000,000	Hong Kong, the PRC, Thailand, the Philippines and the USA
China Travel International Investment Hong Kong Ltd.	308	31/12/2004	10,493,930,777	10.61	HK\$901,654,000	Hong Kong, the PRC, Macau
Shun Tak Holdings Ltd.	242	31/12/2004	14,872,187,616	28.81	HK\$503,197,000	Macau
Miramar Hotel & Investment Co. Ltd.	71	31/3/2004	6,753,605,648	26.98	HK\$250,328,000	Hong Kong and the PRC
Sino Hotels (Holdings) Ltd.	1221	30/6/2004	4,315,086,880	44.56	HK\$95,522,218	Hong Kong and Singapore
Shangri-La Asia Ltd. Hong Kong,	69	31/12/2004	28,049,887,183	24.73	US\$141,486,000	the PRC, the Philippines, Singapore, Thailand, Malaysia, Indonesia, Fiji, Myanmar, Taiwan, Australia, India and United Arab Emirates
Harbour Centre Development Ltd.	51	31/12/2004	4,095,000,000	16.33	HK\$250,700,000	Hong Kong
Weighted average (by market capitalisation)				22.74		

Source: www.hkex.com.hk as at 8 June 2005

Note: Based on www.etnet.com.hk, there are 32 stocks listed on the Stock Exchange which fall under the classification of the “Hotel and Entertainment”, PE multiples of 8 stocks, including two, namely Shun Tak Holdings Ltd. and Miramar Hotel & Investment Co. Ltd., which are not on the “Hotel and Entertainment” list, are selected for comparing the PE multiples of the Proposed Acquisition and the non comparable stocks are excluded after taking into account of the reasons including the loss making trading record, insignificant portion of profit attributable from hotel operation to the total profit and geographical location of the hotels.

From the above analysis, the Directors consider that the PE multiples of the Proposed Acquisition of 24.9 times of Consideration represents a premium of 9.5% to the weighted average PE multiples of the Comparables. The Directors consider the valuation of SDFP reflects the fact that the hotel business will generate cash flow and bring in growing return to the Group. The Directors consider that the Proposed Acquisition enable the Group to diversify its income stream. The Proposed Acquisition represents an investment by the Group into a new business. The Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Principal terms of the Convertible Notes

Aggregate principal amount:	HK\$250 million
Term:	Two years from Completion
Interest:	3.5% per annum
Conversion Rights:	The noteholder of the Convertible Notes shall have the right to convert the whole or part of the principal amount of the Convertible Notes into Shares in such a denomination agreed by the parties
Exercise period:	Exercisable at any time after the lapse of six months from Completion and before the expiry of the two year term
Conversion Price:	HK\$0.10 per Share (subject to adjustment)
Redemption Rights:	No early redemption is allowed and if no Conversion Rights is exercise, the Convertible Note shall be redeemed at par at the maturity date
Transferability:	The Convertible Notes can only be transferred to a wholly-owned subsidiary of CTII
Events of default:	(a) the Company fails to pay the principal when due; (b) the Company defaults in performance or observance or compliance with any of its other obligations set out in the Convertible Notes; (c) any bank borrowings of the Company or its subsidiaries are not paid when due; (d) an encumbrancer takes possession of the whole or any substantive part of the assets or revenues of the Company or its subsidiaries; (e) the Company or its subsidiaries becomes insolvent; (f) an order is made or an effective resolution passed for winding-up of the Company or any of its subsidiaries except in the case of winding-up of subsidiaries in the course of internal reorganisation;

LETTER FROM THE BOARD

- (g) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its subsidiaries or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or any of its subsidiaries; or
- (h) the Shares (as a class) cease to be listed on the Stock Exchange or a recognised stock exchange for a continuous period of 90 trading days.

Adjustment events:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision (Mechanism: the conversion price shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount);
- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including bonus issue of Shares and script dividend scheme providing for the allotment and issue of share in lieu of whole or part of the dividend in accordance with bye-laws of the Company) (Mechanism: the conversion price shall be adjusted by multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation);
- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to holders of Shares, whether on a pro-rata basis or not, (in their capacity as such) or a grant by the Company to holders of Shares whether on a pro-rata basis or not, (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries (Mechanism: the conversion price shall be adjusted by multiplying it by the fraction $(A-B)/A$ where A means the average of the closing prices of one Share on the Stock Exchange for each of the last five Stock Exchange dealing days on which dealings in the Shares on the Stock Exchange took place ending on the last

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such dealing day preceding the day on which the capital distribution is publicly announced and B means the fair market value on the day of such announcement as determined in good faith by the auditors of the portion of the capital distribution or of such rights which is attributable to one Share);

- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to holders of Shares, whether on a pro-rata basis or not, (in their capacity as such) (Mechanism: the conversion price shall be adjusted by multiplying it by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options, or warrants and of the amount payable for the rights, options, or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants);
- (v) an issue wholly for cash being made by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the Total Effective Consideration per Share receivable for such securities is less than 90% of the market price on the date of announcement of the terms of the issue of such securities (Mechanism: the conversion price shall be adjusted by multiplying the conversion price by a fraction of which the numerator is 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 such market price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or the

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exercise of the subscription rights conferred by such securities at the initial conversion or subscription price);

- (vi) an issue of Shares wholly for cash at a price per Share which is less than 90% of the market price on the date of announcement of the terms of such issue (Mechanism: the conversion price shall be adjusted by multiplying the conversion price by a fraction of which the numerator is 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 such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued); and
- (vii) an issue of Shares for the acquisition of assets at the Total Effective Consideration per Share which is less than the market price of the date of the announcement of the terms of such issue (Mechanism: the conversion price shall be adjusted in such manner as may be determined by the auditors).

The conversion price represents: (i) a premium of approximately 177.8% over the closing price of HK\$0.036 per Share as quoted on the Stock Exchange on the Last Trading Date; (ii) a premium of approximately 173.2% over the average closing price per Share of about HK\$0.0366 for the last five trading days up to and including the Last Trading Date; (iii) a premium of approximately 316.7% over the closing price of HK\$0.024 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (iv) a premium of approximately 278.8% over the average closing price per Share of about HK\$0.0264 for the last five trading days up to and including the Latest Practicable Date; (v) a premium of approximately 308.2% over the audited consolidated net asset value per Share of approximately HK\$0.0245 as at 31 March 2004; and (vi) a premium of approximately 313.2% over the unaudited consolidated net asset value per Share of approximately HK\$0.0242 as at 30 September 2004.

Upon full conversion of the HK\$250.0 million Convertible Notes to be issued at the initial conversion price of HK\$0.10 per Share (subject to adjustment), a total of 2,500,000,000 conversion Shares will be issued, representing approximately 22.1% of the existing issued share capital of the Company (before the Best Effort Placing) and approximately 18.1% of the issued share capital of the Company (before the Best Effort Placing and enlarged by the issue of such conversion Shares at the initial conversion price).

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The conversion price of HK\$0.1 per Share was determined with reference to the market price of the Share HK\$0.036 at the time of the Preliminary Agreement and the expected increase in the Share price after Completion. The Directors expect that the hotel operation will generate a steady source of revenue to the Group, which will have a positive impact on the Group's overall performance.

The Directors consider the interest charged under the Convertible Notes, which is 3.5% per annum, is fair and reasonable as the cost of other source of borrowing of the Group is currently charged at prime rate, which is currently at 5.75% per annum. The Board considered that given the size of the principal amount, financial performance of the Company, existing market conditions and the funding requirements of the Company, the issue of the Convertible Notes at an annual interest rate of 3.5% was in the best interests of the Company and the Shareholders as a whole.

No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the new Shares falling to be issued on any exercise of the conversion rights attaching to the Convertible Notes.

Set out below is the information regarding the movements in share capital of the Company after 31 March 2004.

Share Capital

Shares	As at the Latest Practicable Date <i>HK\$'000</i>	31 March 2004 <i>HK\$'000</i>
Authorised:		
60,000,000,000 ordinary Shares of HK\$0.01 each	600,000	600,000
Issued and fully paid:		
11,332,430,478 (2004: 9,332,430,478) ordinary Shares of HK\$0.01 each	113,324	93,324

During the period, 2,000 million Shares were issued at the placing price of HK\$0.032 per Share, resulting in the issue of 2,000 million ordinary Shares of HK\$0.01 each for gross proceeds of HK\$64.0 million (net proceeds of HK\$62.4 million).

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A summary of the movements in the issued share capital of the Company is set out as follows:

	Number of Shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 March 2004	9,332,430,478	93,324	267,600	360,924
2,000,000,000 Shares issued under fully underwritten placing on 14 March 2005	2,000,000,000	20,000	42,400	62,400
Issued share capital as at the Latest Practicable Date	11,332,430,478	113,324	310,000	423,324
Assuming shares to be issued under the Best Effort Placing are issued in full	2,000,000,000	20,000	43,040	63,040
Share issued and to be issued after the Best Effort Placing	13,332,430,478	133,324	353,040	486,364
Assuming full conversion of the Convertible Notes	2,500,000,000	25,000	225,000	250,000
Share issued and to be issued after best effort placing and full conversion of the Convertible Notes	15,832,430,478	158,324	578,040	736,364

Management Agreement

On 2 February 2005, SDFP and the Vendors also entered into a memorandum, which is legally binding, of key commercial terms for the Management Agreement to be entered into before the Completion as one of the completion documents between SDFP and the Vendors, which are as follows:

Term:	five years terminable by one year's advance notice (or the equivalent of one year's compensation) to the other party
Base fee:	2% of gross revenues of SDFP
Incentive fee:	4% of gross operating profit of SDFP

Under the memorandum of key commercial terms for the Management Agreement dated 2 February 2005, SDFP will be charged a fee regarding the management services, to be provided by the Vendors (or their assignee) to SDFP. Based on the understanding between the Vendors

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and the Company, the Vendors may or may not assign the responsibilities to the assignee, and even if there is such assignment, the Vendors will not assign such responsibility to an entity without any hotel management services as the commission earned by the hotel management services company is determined by reference to the revenue of the hotel it manages. Such arrangement will facilitate smooth hotel operation during the transitional period. The hotel management service company currently has 1 general manager, 1 deputy general manager and about 20 staff. Including the general manager and the deputy general manager, normally 5 team members will participate in providing management service to the company.

The basis of service fee was determined with reference to the market rates obtained from independent consultants of hotel management service provider in the industry who are not connected with the Vendors or the Company, through negotiation and independent business communication and arm's length negotiations between the Vendors and the Company. The fee of a hotel management agreement for similar hotel services is usually based on two components (i) 2% – 4% of gross revenues; plus (ii) 5% – 10% of gross operating profit. Taking into account of the market practice, the Directors consider the terms of the Management Agreement are fair and reasonable.

Prior to the Proposed Acquisition, there is no management service contract between the Vendors and SDFP as they are of the same group and the Vendors provide hotel management services to SDFP directly. The management team, including general manager, financial controller and senior marketing manager of SDFP are the employees of SDFP and SDFP is managed under the hotel management services provided by Vendors. SDFP currently has a total of 208 employees.

Following the Proposed Acquisition, the Company will be diversifying into the new business scope and will become the holding company of SDFP. In order to facilitate the smooth operation of the hotel business, the Vendors continue to provide hotel management services to SDFP by entering into a 5-year Management Agreement with the Company. The existing management team of SDFP may continue to be the management team of SDFP following the Proposed Acquisition and SDFP will continue to operate under the hotel management services provided by the Vendors. The Directors consider that the entering into of the Management Agreement with the Vendors, the previous hotel management service company of SDFP, can minimise any substantial operational and management change during the transitional period. For the past three years prior to the Proposed Acquisition, the Group had no similar arrangement comparable to the Management Agreement.

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Hotel management services

Since the terms of the management agreement between the Vendors and the Company have not been finalised, for information purpose, please refer to the principal hotel management services provided by the Vendors to the SDFP, include but not limited to, the following:

1. exercising direction and operational control, formulation and implementation of strategic plan;
2. managing the hotels and their operations;
3. formulating sales and marketing plan;
4. giving advices on procurement of services and raw materials for hotel operation;
5. assisting hotels to develop a standardised management system consistent with the best practices of the industry to improve the quality of their services;
6. reviewing the staff cost;
7. giving consent on the hiring of executives of the SDFP;
8. ensuring the procurement procedures are adequate in maximizing saving and the cost control systems are effective to the profitability of the hotel;
9. giving advices on annual marketing plan and promotional activities of the hotel to ensure the set objectives are achievable;
10. assisting in hotel brand name building and promoting the hotel business through national and international network of management companies; and
11. conducting periodical management meeting with the board of directors of SDFP to update all hotel related matters including but not limited to financial status, cash-flow positioning and evaluation of hotel performance.

The role of hotel management services companies is to provide industry expertise advices and consulting services on strategic and operational plan to hotels. Hotels have their own management team to carry out the management function and operating staff to carry out the day-to-day operation of the hotels. The hotel management service companies and hotels work closely on the strategic and operational level.

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The revenue earned by hotel management services companies generally is commission base which is determined with direct reference to the revenue earned by hotels they manage, in this connection, the role of management services companies is to ensure quality services and to maximise hotel revenue.

The hotel management team are employees of the hotel. The appointment of the management team is generally determined by the hotel management services companies which have extensive market knowledge and experience in hotel industry. The advice and approval from the hotel management services companies is crucial to such appointment because a due and appropriate appointment of the management executives is important to hotels' strategic development and daily operation and SDFP still retain the ultimate decision making over the plans and services recommended by the hotel service management company.

As the Group has not previously engaged in the hotel business, the entering into of the Management Agreement with regard to the provisions of hotel management services by the Vendors (or their assignee) to SDFP has procured the Group the necessary expertise to operate its newly acquired hotel business effectively. **However, should the Vendors terminate the Management Agreement during the contractual period and the Company is unable to secure a substitute management services contract, the overall hotel's strategic plan or the marketing plan, such as the promotional activities of the SDFP may be adversely affected.**

Terms of the Management Agreement as disclosed in the circular are not expected to change and will be finalised and disclosed by way of announcement upon Completion. The Company will ensure full compliance of the relevant requirements of the Listing Rules.

Conditions of the SP Agreement

The Proposed Acquisition is conditional upon the following conditions:

- (a) Walterford being satisfied at its absolute discretion with the results of the due diligence review to be conducted;
- (b) the passing by the Shareholders at the SGM of the ordinary resolution approving the transaction contemplated under the SP Agreement;
- (c) the Stock Exchange granting the listing of, and permission to deal in, the Shares to be issued upon the exercise of the conversion rights in respect of the Convertible Notes;

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- (d) the Shares continuing to be traded on the Stock Exchange (but any temporary suspension not exceeding 35 consecutive trading days (as defined in the Listing Rules) excluded) and no indication being received by the Company on or before the date of Completion from (i) the Stock Exchange indicating that it shall object to the continued listing of the Shares; and (ii) the SFC indicating that it shall exercise its powers under Part 3 of the Securities and Futures (Stock Market Listing) Rules;
- (e) all warranties remaining true and accurate as stated in the SP Agreement and are not misleading in any material respect;
- (f) all necessary statutory, governmental and regulatory obligations in Hong Kong, Macau and other jurisdiction (if applicable) having been complied with and all necessary regulatory, governmental and third party consents and waivers in relation to the implementation of any terms of the SP Agreement by Walterford having been obtained unconditionally; and
- (g) all necessary statutory, governmental and regulatory obligations in Hong Kong, Macau and other jurisdiction (if applicable) having been complied with and all necessary regulatory, governmental and third party consents and waivers in relation to the implementation of any terms of the SP Agreement and the mortgage by the Vendors having been obtained unconditionally.

The condition (a) as stated above must be satisfied or waived by Walterford on or before the date being the earlier of:–

- (i) 34 business days from the date of the SP Agreement; and
- (ii) 20 business days from the date the title deeds are supplied to Walterford.

The conditions (b) to (g) as stated above must be satisfied or waived by Walterford on or before 2 September 2005 (or such later date(s) as the parties may agree), which was extended by the parties to the SP Agreement from 2 June 2005.

As at the Latest Practicable Date, only condition (a) had been fulfilled. As agreed by the parties to the SP Agreement, the long stop date for conditions (b) to (g) has been extended to 2 September 2005. Further announcement will be made by the Company if any of the conditions are waived or the transaction fails to be completed by 2 September 2005.

Completion

Completion will take place on the fifth business day following the conditions of the SP Agreement have been fulfilled or waived by Walterford.

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INFORMATION ON THE GROUP

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing, trading and distribution of car audio equipment and other merchandise and the trading of securities.

INFORMATION ON THE VENDORS

China Travel Service is principally engaged in tour operation, PRC entry permit handling, investment holding and travel agency businesses. China Travel Service was established in 1928 and is one of the largest travel and tour operators in Hong Kong.

China Travel Service was acquired by CTII in 2001 and became an indirect wholly-owned subsidiary of CTII. China Travel Service was appointed by CTSH as its exclusive agent up to the year 2047 to carry out the general administrative services provided in Hong Kong for the application of tourist visas and travel permits for entry into the PRC. CTSH has been appointed by the PRC government to provide general administration service in Hong Kong for application of tourist visas and travel permits into the PRC.

CTII holds indirect equity interests of 100% in the Vendors, which in turn, together hold 100% equity interests in SDFP. According to the annual report of CTII for the year ended 31 December 2004 dated 11 April 2005, CTSH is the direct holding company of CTII and the entire issued share capital of CTSH is beneficially owned by China Travel Service Head Office of the PRC. The principal businesses of CTII include tour operation, hotels, theme parks, passenger and freight transportation, golf club and infrastructure investment.

Findco Enterprises, a company incorporated in Western Samoa with limited liability, is a nominee company of China Travel Service which holds 10% of the equity interests in SDFP.

INFORMATION ON SDFP

SDFP was incorporated in Macau on 19 September 1988 and is the owner and operator of Hotel Grandeur Macau in Macau. SDFP is principally engaged in property investment holding and hotel operations. Based on the audited financial statement of SDFP as at 31 December 2004, the principal assets of SDFP are its 100% holding in Hotel Grandeur Macau, dormitory and parking lots while the remaining assets refer to the 1% investment holding in Grand Tour & Travel with an investment cost of MOP10,000 (equivalent to approximately HK\$9,700). The balance of the remaining 99% interest of Grand Tour & Travel is held by CTII.

INFORMATION ON HOTEL GRANDEUR MACAU

Hotel Grandeur Macau is a four star hotel located at Rua de Pequim, No. 199, Macau. It only takes approximately 15 minutes travelling to the Macau International Airport and five minutes travelling to the New Macau Maritime Ferry Terminal.

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Hotel Grandeur Macau is a 26-storey hotel with two levels of basement and has a total gross floor area of approximately 267,472 square feet, with about 350 guest rooms and commenced its operation on 8 September 1993. For the three years ended 31 December 2004, the occupancy rate of Hotel Grandeur Macau was about 78%, 69% and 74% respectively.

Other facilities in Hotel Grandeur Macau include fitness centre, health centre, indoor heated swimming pool, hair salon, business centre, karaoke, multipurpose function room and restaurants, including a revolving restaurant, all of which are operated by SDFP. The revenue generated from these facilities is not the principal income stream for SDFP. These facilities are the necessary requirements for a four-star hotel. Among all of the hotel facilities, the turnover recorded under ancillary income and sales of food and beverages were about HK\$1.3 million and HK\$14.9 million respectively for the year ended 31 December 2004.

The Directors currently intend to maintain all the existing facilities of Hotel Grandeur Macau. Currently, there is no casino operation or gaming and gambling related business in the hotel. The Directors currently have no intention to engage in the casino, gaming or gambling businesses and the Group has not engaged in gaming or gambling business.

The following figures are extracted from the audited accountants' report of SDFP for the three years ended 31 December 2004 as set out in Appendix II to this circular are as follows:

	For the financial year ended 31 December		
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover			
Room sales	48,743	34,590	34,402
Sales of food and beverages	14,877	14,406	15,968
Other ancillary	1,266	891	2,212
	<u>64,886</u>	<u>49,887</u>	<u>52,582</u>
Profit before tax	23,879	10,983	9,160
Profit after tax	20,115	9,425	7,784
	As at 31 December		
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total asset	540,521	494,285	529,770
Total liabilities	(480,027)	(482,551)	(498,816)
Shareholder's Loan (<i>Note</i>)	(420,047)	(431,137)	(444,328)
Net current liabilities	(394,186)	(415,716)	(426,622)
Net assets	60,494	11,734	30,954

Note: As at 31 December 2004, the Shareholder's Loan has no fixed term of repayment and thus it has been classified as current liabilities.

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The financial information has been prepared on a going concern basis notwithstanding that SDFP recorded net current liabilities of approximately HK\$394.2 million as at 31 December 2004 because CTII has agreed to provide continual financial support to SDFP as and when required, provided that SDFP continues to be a subsidiary of the China Travel Service group. Further, the Company has agreed to provide continual financial support to SDFP as and when required, provided that SDFP becomes a subsidiary of the Company. The reason of such continual financial support to SDFP by the Company is due to the fact that the Shareholder's Loan of approximately HK\$420.0 million previously advanced by SDFP's shareholder was principally used to set up SDFP. Upon Completion, SDFP will not be required to repay such Shareholder's Loan as the Directors agreed not to demand for repayment of such Shareholder's Loan. In this connection, SDFP does not have any financial pressure in repaying such Shareholder's Loan and continues to operate and generate revenue to the Company. The Directors are therefore of the view that giving continual financial support to SDFP by the Company is in the interest of the Company and its shareholders.

Review for the year ended 31 December 2002 of SDFP

Hotel Grandeur Macau recorded satisfactory results for the year ended 31 December 2002. During the year, although the turnover decreased by approximately 2.7%, the gross profit increased by approximately 5.7% as a result of the cost savings in the area of labour costs. During the year, although the average occupancy rate dropped slight from approximately 80% in 2001 to approximately 78% in 2002, the average room rate had increased by approximately 3%.

Financial review

For the year ended 31 December 2002, the total income of SDFP was approximately HK\$52.7 million, comprised turnover of HK\$52.6 million and other revenue and gain of HK\$0.1 million. As at 31 December 2002, SDFP had total assets and total liabilities in the amount of HK\$529.8 million and HK\$498.8 million respectively. During the year, working capital had been principally sourced from cash generated from operating activities. As at 31 December 2002, SDFP had trade receivables and trade payables amounted to HK\$7.3 million and HK\$3.6 million respectively. As at 31 December 2002, SDFP had net current liabilities of HK\$426.6 million, of which mainly were Shareholder's Loan due to immediate holding company. SDFP had bank balance and cash of HK\$16.6 million and no borrowing from banks or financial institutes as at 31 December 2002. Details of the financial information of SDFP are set out in Appendix II to this circular.

Review for the year ended 31 December 2003 of SDFP

Since the impact of Severe Actue Respiratory Syndrome ("SARS") on the business of Hotel Grandeur Macau for the year ended 31 December 2003 was relatively less significant (a drop in occupancy rate of 9%), together with tight cost control measures, the average room rate increased by 13.8%, and the operating result was satisfactory.

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The decrease in turnover from approximately HK\$52.6 million to approximately HK\$49.9 million was a result of the decreases in revenue from the sale of food and beverages (approximately HK\$1.6 million), as tour groups preferred to have lunch and dinner outside the hotel, and other ancillary income (approximately HK\$1.3 million) of SDFP.

Despite a drop in turnover, there was an increase in profit before tax from approximately HK\$9.2 million to approximately HK\$11.0 million as a result of the increase in gross profit ratio and decrease in administration expenses. The increase in gross profit ratio was a result of the increase in room rate of approximately 13.8% and the decrease in turnover generated from sales of food and beverages of approximately 9.8% which was operated at low profit margin. The decrease in administration expenses of approximately 2.7% was a result of tight cost control due to SARS which was attributed by a decrease in energy cost and staff cost.

Financial review

For the year ended 31 December 2003, the total income of SDFP was HK\$50.1 million, comprised turnover of HK\$49.9 million and other revenue and gain of HK\$0.2 million, represented a 4.9% decrease as compared with 2002 which was mainly due to the decrease in income generated from the sales of food and beverages. As at 31 December 2003, SDFP had total assets and total liabilities in the amount of HK\$494.3 million and HK\$482.6 million respectively. During the year, working capital had been principally sourced from cash generated from operating activities. As at 31 December 2003, SDFP had trade receivables and trade payables amounted to HK\$5.8 million and HK\$3.5 million respectively. As at 31 December 2003, SDFP had net current liabilities of HK\$415.7 million, of which mainly were Shareholder's Loan due to immediate holding company. Bank balance and cash of SDFP increased from HK\$16.6 million in 2002 to HK\$16.9 million in 2003. SDFP had no borrowing from banks or financial institutes as at 31 December 2003. Details of the financial information of SDFP are set out in Appendix II to this circular.

Review for the year ended 31 December 2004 of SDFP

Due to the recovery of the worldwide travel market in 2004, the extension of "Individual Traveler Permit Scheme" and the aggressive development efforts of the Hotel Grandeur Macau, the business of Hotel Grandeur Macau achieved encouraging results. The average room rate and profit increased by approximately 30.4% and 113.4% respectively as compared with the year ended 31 December 2003.

The increase in turnover from approximately HK\$49.9 million to approximately HK\$64.9 million was a result of the increase in average room rate of approximately 30.4% and increase of occupancy rate of approximately 5% due to the increase in demand as a result of the increase of PRC individual visit travelers.

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There was also an increase in profit before tax from approximately HK\$11.0 million to HK\$23.9 million as a result of the increase in gross profit ratio. The increase in gross profit ratio was a result of the increase in average room rate and the occupancy rate, again brought about by the increase in PRC individual visit travellers.

Financial review

For the year ended 31 December 2004, the total income of SDFP was approximately HK\$65.0 million, comprised turnover of approximately HK\$64.9 million and other revenue and gain of approximately HK\$0.1 million, represented an increase of approximately 29.7% as compared to the year ended 31 December 2003, which was mainly due to the increase in average room rate and occupancy rate. As at 31 December 2004, SDFP had total assets and total liabilities in the amount of approximately HK\$540.5 million and HK\$480.0 million respectively. During the year, working capital had been principally sourced from cash generated from operating activities. As at 31 December 2004, SDFP had trade receivables and trade payables amounted to approximately HK\$5.9 million and HK\$2.5 million respectively. As at 31 December 2004, SDFP had net current liabilities of approximately HK\$394.2 million, of which mainly were Shareholder's Loan due to immediate holding company. SDFP had bank balance and cash of approximately HK\$28.6 million and no borrowing from banks or financial institutes as at 31 December 2004. Details of the financial information of SDFP are set out in Appendix II to this circular.

EFFECTS ON THE SHAREHOLDING STRUCTURE

Set out below are the potential changes to the shareholding structure of the Company as a result of the Best Effort Placing and the exercise in full of the Convertible Notes:

Name of Shareholders	As at the Latest Practicable Date (iv)		Assuming completion of the Best Effort Placing but before exercise of the Convertible Notes (iv)		Assuming exercise of Convertible Notes in full but before completion of the Best Effort Placing (iv)		Assuming completion of the Best Effort Placing and exercise of the Convertible Notes in full (iv)	
	Shares	%	Shares	%	Shares	%	Shares	%
Mr Wong Howard (ii)	212,990,000	1.88	212,990,000	1.60	212,990,000	1.54%	212,990,000	1.35
Mr Wong Yat Fai (ii)	212,990,000	1.88	212,990,000	1.60	212,990,000	1.54%	212,990,000	1.35
Mr Wu Qing (ii)	212,990,000	1.88	212,990,000	1.60	212,990,000	1.54%	212,990,000	1.35
Holder(s) of Convertible Notes (iii)	–	–	–	–	2,500,000,000	18.07%	2,500,000,000	15.79
Public								
Other Shareholders (v)	10,693,460,478	94.36	10,693,460,478	80.20	10,693,460,478	77.31%	10,693,460,478	67.54
Best Effort Placing placees (i)	–	–	2,000,000,000	15.00	–	–	2,000,000,000	12.62
Total	<u>11,332,430,478</u>	<u>100.00</u>	<u>13,332,430,478</u>	<u>100.00</u>	<u>13,832,430,478</u>	<u>100.00%</u>	<u>15,832,430,478</u>	<u>100.00</u>

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Notes:

- (i) The above table is prepared based on the assumption that the 2,000,000,000 Shares under the Best Effort Placing Agreement will be sold in full.
- (ii) Mr Wong Howard, Mr Wong Yat Fai and Mr Wu Qing are all executive Directors.
- (iii) The Convertible Notes in the aggregate principal amount of HK\$250.0 million will be issued by the Company to the Vendors as consideration for the Proposed Acquisition. As informed by the Vendors, CTII holds an indirect 100% equity interests in the Vendors, which in turn, together hold 100% equity interests in SDFP. According to the 2004 annual report of CTII, CTSH is the direct holding company of CTII, and the entire issued share capital of CTSH is beneficially owned by China Travel Service Head Office of the PRC. The Company confirms that, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, CTII, the Vendors and CTII's ultimate beneficial owner and their respective associates are third parties independent of the Company and its connected persons and are not connected persons of the Company. There will be no representation of the holder of the Convertible Notes on the Board.
- (iv) Percentage may be added or reduced for rounding purposes.
- (v) Having taken into account of the 2,000 million Shares issued to placees pursuant to the Fully Underwritten Placing Agreement which was completed on 14 March 2005.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION ON THE GROUP

Upon Completion, SDFP will become a wholly-owned subsidiary of the Company and the results of which will be consolidated into the Group's accounts.

Earnings

For the year ended 31 March 2004, the audited net profit after tax attributable to the Group was approximately HK\$1.2 million and the earnings per Share was approximately 0.013 Hong Kong cent base on 9,332,430,478 Shares in issue as at 31 March 2004.

Upon Completion, the Group shall, on a consolidated basis, be entitled to account for 100% of the net earnings/loss after tax of SDFP. According to the prevailing accounting policy of the Group, the Proposed Acquisition has positive effect on the profit and loss account of the Group. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular and assuming Completion took place on 1 April 2003, the unaudited consolidated pro forma net profit after tax and earnings per Share of the Enlarged Group would be approximately HK\$1.3 million and approximately 0.014 Hong Kong cent based on 9,332,430,478 Shares in issue as at 31 March 2004. Taking into account the Fully Underwritten Placing Agreement, which was completed on 14 March 2005, and the full conversion of the Convertible Notes at the initial conversion price of HK\$0.1, the earnings per Share would be 0.009 Hong Kong cent based on 13,832,430,478 Shares (after taking into account the Fully Underwritten Placing of 2,000,000,000 Shares).

LETTER FROM THE BOARD

Net asset value

The unaudited consolidated total assets and total liabilities (including minority interests) of the Group as at 30 September 2004 were approximately HK\$235.8 million and HK\$10.0 million, respectively. The audited consolidated net asset value and net tangible assets as at 31 March 2004 were both approximately HK\$228.4 million and the unaudited consolidated net asset value and net tangible assets as at 30 September 2004 were both approximately HK\$225.8 million. The gearing ratio of the Group as at 31 March 2004 and 30 September 2004 were nil.

As set out in Appendix III to this circular assuming Completion took place on 31 March 2004, the unaudited pro forma consolidated total assets and total liabilities (including minority interests) of the Enlarged Group would be approximately HK\$710.1 million and HK\$419.3 million respectively following the completion of the Fully Underwritten Placing Agreement, which took place on 14 March 2005, but before the full conversion of the Convertible Notes. Upon Completion, the gearing ratio of the Enlarged Group, before and after the full conversion of the Convertible Notes, would be approximately 1.17 and 0.17, respectively, after taking into account the completion of the Fully Underwritten Placing Agreement, which took place on 14 March 2005. The gearing ratio of 0.17 was derived by using secured loan of HK\$90.0 million and net asset value of HK\$540.8 million while the gearing ratio of 1.17 was derived by using the total of secured loans and the Convertible Notes of HK\$340.0 million and net asset value of HK\$290.8 million. Following the completion of the Fully Underwritten Placing Agreement, which took place on 14 March 2005, but before the full conversion of the Convertible Notes, the unaudited pro forma consolidated net asset value and consolidated net tangible assets of the Enlarged Group would be approximately HK\$290.8 million and HK\$296.4 million respectively.

The audited consolidated net assets and net tangible assets of the Group as at 31 March 2004 were both approximately HK\$228.4 million, equivalent to approximately HK\$0.0245 per Share on the basis of 9,332,430,478 Shares in issue as at 31 March 2004. The unaudited consolidated net assets and net tangible assets of the Group as at 30 September 2004 were both approximately HK\$225.8 million, equivalent to approximately HK\$0.0242 per Share on the basis of 9,332,430,478 Shares in issue as at 30 September 2004.

As set out in Appendix III to this circular, assuming Completion took place on 31 March 2004, the unaudited pro forma consolidated net assets of the Enlarged Group would be approximately HK\$290.8 million, equivalent to approximately HK\$0.0257 per Share on the basis of 11,332,430,478 Shares in issue (following the completion of the Fully Underwritten Placing Agreement and the exercise of the Convertible Notes), and equivalent to approximately HK\$0.0391 per Share on the basis of 13,832,430,478 Shares, assuming full conversion of the Convertible Notes, and consolidated net assets of HK\$540.8 million. The unaudited pro forma consolidated net tangible assets per Share before the Completion based on 11,332,430,478 Shares in issue is HK\$0.0257. The unaudited pro forma consolidated net tangible assets per

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Share after the Completion assuming no conversion and full conversion of Convertible Notes is approximately HK\$0.0262 and HK\$0.0395 based on 11,332,430,478 Shares in issue and 13,832,430,478 Shares in issue respectively.

The audited Net Asset Value and the Shareholder's Loan as at 31 December 2004 were approximately HK\$60.5 million and HK\$420.0 million respectively. The carrying value of the fixed assets held by SDFP as at 31 December 2004 was approximately HK\$503.8 million. The audited net asset value per share for SDFP as at 31 December 2004 was approximately HK\$302.5 based on 200,000 shares in issue.

As mentioned under the paragraph headed "Consideration" under the section headed "The Proposed Acquisition" above, the cash consideration of HK\$225.0 million (net of HK\$25.0 million deposit) of the Consideration will be financed by the Group's existing resources of which (i) 198.6 million as at the Latest Practicable Date; and (ii) the balance for approximately HK\$26.4 million will be financed by the Group's marketable securities with the market value of HK\$228.3 million as at the Latest Practicable Date. Given the profitable track record of SDFP and the prospects of the tourism industry in Macau, the Directors consider that the Proposed Acquisition would benefit the results of the Group in the future.

As stated in the pro forma financial information of the Enlarged Group in Appendix III to this circular as set out on pages 123 to 136, the turnover and the net profit attributable to Shareholders will be HK\$80.3 million and HK\$1.30 million while the turnover and net profit after tax of the Group for the year ended 31 March 2004 were HK\$15.4 million and HK\$1.2 million respectively. The increase in turnover was principally due to the new stream of revenue generated from the hotel business and the increase in net profit arising from the hotel business was partly offset by interest on unsecured loans, interest on Convertible Notes and hotel management fee. The decrease in cash flow from HK\$27.8 million for the year ended 31 March 2004 to HK\$10.5 million as stated in the pro forma cash flow statement was principally due to interest on unsecured loans, interest on Convertible Notes and hotel management fee. The amount of interest on unsecured loans, interest on Convertible Notes and hotel management fee were approximately HK\$9.2 million, HK\$8.7 million and HK\$2.3 million respectively.

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As at the Latest Practicable Date, the unutilised banking facilities of the Group including overdraft, trust receipt and letters of credit amounted to about HK\$6.6 million and there was no un-utilised banking facility available to SDFP. Set out below is a table showing the financial effect of the Proposed Acquisition on the Group's earnings and asset values.

	As at 31 March 2004 No. of Shares 9,332,430,478	As at 30 September 2004 No. of Shares 9,332,430,478	Assuming completion with Fully Underwritten Placing Agreement and full conversion of the Convertible Notes No. of Shares 13,832,430,478	Assuming completion with Fully Underwritten Placing Agreement but no conversion of the Convertible Notes No. of Shares 11,332,430,478
Profit/(loss) after tax (HK\$ million)	1.2	(2.6)	1.3	1.3
Earning/(loss) per Share (HK\$)	0.01cent	(0.03) cent	0.009 cent	0.011 cent
Total assets (HK\$ million)	242.5	235.8	710.1	710.1
Total liabilities (HK\$ million)	14.1	10	169.3	419.3
Current ratio	17.14	23.51	4.19	1.69
NAV	228.4	225.8	540.8	290.8
NAV per Share	0.0245	0.0242	0.0391	0.0257
NTA (HK\$ million)	228.4	225.8	546.4	296.4
NTA per Share	0.0245	0.0242	0.0395	0.0262
Gearing ratio	0	0	0.17	1.17

Risk Factor

As at the Latest Practicable Date, the Group's working capital comprised principally cash and cash equivalents in the amount of HK\$198.6 million and securities of about HK\$228.3 million. The Directors consider that part of the aforesaid amounts will be utilised to satisfy the cash portion of the Consideration (which amounts to HK\$225.0 million) and the repayment of unsecured loans of HK\$90.0 million in aggregate obtained by the Group in May 2005 to finance the Proposed Acquisition. In the opinion of the Directors, the remaining balance of about HK\$111.9 million is sufficient to finance the future working capital requirements of the Enlarged Group.

The Directors expect that the future cash flow and working capital of the Group for its day-to-day operation for the 12 months following the date of the Circular (the "Period") will be generated either by funds to be generated from the hotel operation following the Proposed Acquisition, orderly disposal of its securities in the market, where necessary or any other

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possible equity or debt financing or re-financing arrangements if necessary. The Directors are of the view that there is no immediate funding requirement and capital commitment for the Group and the Group has sufficient internal general working capital for its operation during the Period based on the assumption that the Group continues to orderly dispose of its securities, where necessary and/or the hotel business will continue to generate positive cash flow to the Group. The Directors are optimistic that hotel business will continue to generate working capital to the Group due to the SDFP's cash flow position and financial performance during the last three financial years.

The Group will utilise all of its existing available cash resources and will realise part of its securities held by the Group, if necessary, to satisfy the Consideration. The Directors will carefully monitor the financial position of the Group and where appropriate, the Company may conduct equity/debt financing or re-financing arrangement. **Such equity/debt financing or re-financing arrangement, if conducted, will be subject to the market conditions and therefore may or may not be successfully materialised.**

Should the Group fail to secure sufficient and positive cash flow for its day-to-day operation after the Period, and to repay of the unsecured loan of HK\$60.0 million, which become due in July 2006, on the Repayment Dates, the financial position and the operation of the Group may be adversely affected.

The Directors consider that there are no other major risk factors in relating to the Proposed Acquisition.

REASONS FOR THE PROPOSED ACQUISITION AND ENTERING INTO THE MANAGEMENT AGREEMENT

In the midst of intense market competition and price pressures, the Group has experienced a steady sales decline and loss in its car audio business. In order to counter this adversity, the Group has continuously pursued a prudent strategy to explore into suitable investment opportunities so as to diversify its business and enhance profitability.

With the relaxation of restrictions on PRC mainland tourists to Hong Kong and Macau, the hotel, catering, retails sales business sectors have achieved a robust recovery and significant rebound. The increase in business travel and mainland individuals' visit to Macau have created a huge demand for hotel rooms, catering and other traveler/tourist-related services in Macau such as restaurants, bars, theme parks, sport events, casinos, racing parks, shopping malls and other tourist attractions.

The Directors believe that the economic boom in these business sectors will generate an abundance of investment opportunities in the future. In order to ride the heels of this economic boom and establish a foothold in this growing business, the Group, at this stage, has decided to make an investment in the hotel and catering business in Macau.

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The Directors believe that the rapid growth in Macau's tourism industry will continue in the coming years and the Proposed Acquisition will allow the Group to diversify into a solid business with high potential growth and open up new array of steady income. Furthermore, the Directors also believe that through the ownership of a four-star hotel, it would provide the Group with a solid platform to create strategic alliances and cooperation with global market players in accessing and developing businesses in the areas of retail sales, tourist related services, and leisure/entertainment-related business activities in the future. The Group currently has neither plan nor intention to engage in the tourism and entertainment businesses.

Due to the heavy reliance on customers from the PRC and Hong Kong, any adverse change and uncertainty in the economic, social and political conditions, in each of these markets may cause an adverse impact to the business, prospects, financial condition and profitability of the hotel. Furthermore, there is no assurance that the hotel will be able to maintain its sales with the customers from these markets. Should the hotel fail to maintain its sales to the customers from the PRC and Hong Kong, the hotel's profitability and operation might again be adversely affected.

Since the management of the Group does not have experience in hotel operation, the Directors believe it would be beneficial to the Group to enter into the Management Agreement in order to benefit from the expertise of China Travel Service and its subsidiaries in hotel operations. In view of the growing return and the enhancement of the income stream that can be brought by the Proposed Acquisition, the Directors are of the view that the terms of the Proposed Acquisition including the terms of the Convertible Notes, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Group's principal place of business is Hong Kong. Even though the Group has no experience in both operating a hotel and conducting business in Macau, the Directors believe that with the Management Agreement in place, the Group can leverage on China Travel Service's expertise both in relation to operating a hotel and conducting business in Macau.

As there are other hotel management companies which can be employed to manage the hotel at fair market price similar to the fee structure stipulated under the Management Agreement available in the market, the Directors are of the view that the Company does not place heavy reliance on the Vendors in relation to operating the hotel. Currently, the Directors have no intention to invite directors of SDFP to join the board of the Company.

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FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As at the Latest Practicable Date, the Group was principally engaged in the businesses of trading and distribution of car audio equipment and other merchandise and trading of securities.

Looking ahead, the market environment for car audio business would remain intense in terms of downward price pressures and shorter product cycle. The Group would continue to maintain its competitiveness of this business segment by focusing on product outsourcing through cooperation with reliable subcontractors and forming strategic alliance with trading partners and strengthening the trading platform by way of expansion in sales network and product range.

To optimize the Group's return on assets, the Group will continue to engage in investment in securities, however, investment in securities will not be the principal business of the Group. As parts of its fund management, the Group will continue to invest its excessive funds in securities investment for investment income.

As mentioned in the annual report of the Company for the year ended 31 March 2004, it is the objective of the Group to enhance its assets value and corporate competitiveness. The Board and the management of the Company have been identifying opportunities to diversify the Group's business. The hotel business is stable in comparison with the car audio business, and will be able to generate stable cash income for the Group.

Subject to the Completion, SDFP will become the principal operating subsidiary of the Enlarged Group. Whilst the Enlarged Group will continue to operate the current business activities as stated above, the Group will focus on the hotel business as its principal business, and therefore, no major capital investment will be made to the existing business.

SDFP generated after-tax profits of approximately HK\$20.1 million for the year ended 31 December 2004 (as set out in Appendix III to this circular). The Directors believe that the Macau tourism business, due to the implementation and expansion of the "Individual Traveler Permit Scheme" by the PRC government, will remain favourable and are optimistic about the prospects of the hospitality, retail, food and beverage, and entertainment related businesses in Macau, and therefore the Enlarged Group, as a result, shall benefit undoubtedly. According to the Statistic and Census Service of the Government of Macau, the total number of visitor arrivals increased by approximately 39.5% from approximately 11.9 million in 2003 to a historical high of approximately 16.6 million in 2004. Given the increasing number of tourists, the average occupancy rate of the hospitality sector was approximately 75.6% in 2004, representing an increase of approximately 11.3% from 2003. With the opening of new attractions such as the Macau Fisherman's Wharf and the further improvement of infrastructure, the Board is optimistic about the prospects of Macau tourism.

LETTER FROM THE BOARD

The Directors consider that the Proposed Acquisition represents a good investment opportunity and are of the view that Hotel Grandeur Macau will generate a considerable return for the Enlarged Group. The Board and the management of the Group will take advantage of every opportunity and are committed to bring favourable returns to the Shareholders.

LISTING RULES IMPLICATIONS

The Proposed Acquisition contemplated under the SP Agreement constitutes a very substantial acquisition for the Company under the Listing Rules and will be subject to, *inter alia*, approval of the Shareholders at the SGM.

Special General Meeting

A notice convening the SGM to be held at Basement Function Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 27 June 2005, at 9:00 a.m. or any adjournment thereof is set out on pages 154 to 155 of this circular for the purpose of considering and, if though fit, passing, with or without amendments, the ordinary resolutions in respect of the Proposed Acquisition and the issue of the Convertible Notes including the allotment and issue of the Shares which may fall to be issued upon the exercise of the conversion rights under the Convertible Notes.

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Hong Kong branch share registrars and transfer office of the Company, at Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event, not later than 48 hours before the time appointed for holding the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not precluded you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

None of the parties to the SP Agreement and the Management Agreement holds any Share. None of the Shareholders or their associates has any interest in the Proposed Acquisition which is different from the other Shareholders. Accordingly, the Company is not aware of any Shareholder who will need to abstain from voting at the SGM.

Shareholders should note that Completion is subject to conditions, details of which are set out in the paragraph headed “Conditions of the SP Agreement” in this letter from the Board. Shareholders are reminded to exercise caution when dealing in the Shares.

LETTER FROM THE BOARD

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

The following sets out the procedures by which the Shareholders may demand a poll at the SGM.

According to bye-law 79 of the bye-laws of the Company, a resolution put to the vote at the SGM 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 such meeting; or
- (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

RECOMMENDATION

The Directors (including all the independent non-executive Directors) are of the view that the terms of the SP Agreement and the Convertible Notes are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the SP Agreement of the Convertible Notes.

GENERAL INFORMATION

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

Yours faithfully,
On behalf of the Board
Wong Howard
Director

(A) THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial information of the Group for each of the three years ended 31 March 2002, 2003 and 2004 as extracted from the relevant annual reports of the Company and unaudited consolidated financial information for the two period ended 30 September 2003 and 2004 as extracted from the Company's interim report for the six months ended 30 September 2004 and 2003:

Consolidated Income Statements

	For the year ended 31 March			For the six months ended 30 September	
	2004	2003	2002	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Unaudited)	(Unaudited)
TURNOVER	15,410	97,429	133,665	4,930	8,522
Cost of sales	(20,527)	(72,048)	(105,319)	(8,451)	(11,089)
Gross (loss)/profit	(5,117)	25,381	28,346	(3,521)	(2,567)
Other revenue and gain	1,995	4,972	14,866	3,165	1,185
Selling and distribution costs	(684)	(8,800)	(8,573)	(219)	(338)
Administrative expenses	(17,681)	(35,714)	(40,041)	(7,389)	(7,321)
Other operating expenses	(4,871)	(17,159)	(41,717)	(77)	(87)
Gain on disposal of subsidiaries relating to discontinued operations	–	5,943	–	–	–
Provisions for impairment in values of investment securities	–	(8,000)	(12,000)	–	–
Gain/(loss) on disposal of other securities	(1,761)	(21,231)	8,001	22,789	15,830
Unrealised gain/(loss) on other securities	29,597	(7,530)	8,388	(17,272)	62,975
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	1,478	(62,138)	(42,730)	(2,524)	69,677
Finance costs	(274)	(4,270)	(5,566)	(90)	(136)
PROFIT/(LOSS) BEFORE TAX	1,204	(66,408)	(48,296)	(2,614)	69,541
TAX	–	1,600	1,420	–	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	1,204	(64,808)	(46,876)	(2,614)	69,541
Minority interests	–	110	31	–	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	1,204	(64,698)	(46,845)	(2,614)	69,541
EARNINGS/(LOSS) PER SHARE					
Basic	0.01 cent	(0.75) cent	(0.60) cent	(0.03) cent	0.81 cent
Diluted	N/A	N/A	N/A	N/A	N/A

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheets**

	31 March		30 September	
	2004	2003	2002	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>(Unaudited)</i>
			<i>Restated</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS				
Fixed assets	8,263	12,703	44,221	6,050
Construction in progress	–	–	1,202	–
Convertible notes	–	10,500	18,000	–
Investment securities	–	–	8,160	–
	<u>8,263</u>	<u>23,203</u>	<u>71,583</u>	<u>6,050</u>
CURRENT ASSETS				
Other securities	181,298	166,606	111,880	158,694
Convertible notes	10,500	–	50,000	–
Inventories	4,395	3,594	40,795	3,197
Trade receivables	728	581	66,006	32
Prepayments, deposits and other receivables	5,165	4,031	5,918	6,850
Pledged time deposits	6,534	6,493	13,082	6,547
Cash and cash equivalents	25,650	21,191	48,797	54,430
	<u>234,270</u>	<u>202,496</u>	<u>336,478</u>	<u>229,750</u>
CURRENT LIABILITIES				
Trade and bills payables	1,683	2,750	34,266	842
Tax payable	363	363	355	363
Other payables and accruals	7,734	7,329	16,796	7,773
Secured, bank overdrafts and interest bearing bank and other borrowings	4,368	7,820	92,964	1,051
Deferred tax liabilities	–	–	1,600	–
	<u>14,148</u>	<u>18,262</u>	<u>145,981</u>	<u>10,029</u>
NET CURRENT ASSETS	<u>220,122</u>	<u>184,234</u>	<u>190,497</u>	<u>219,721</u>
	228,385	207,437	262,080	255,771
MINORITY INTERESTS	<u>–</u>	<u>–</u>	<u>110</u>	<u>–</u>
	<u>228,385</u>	<u>207,437</u>	<u>261,970</u>	<u>225,771</u>
CAPITAL AND RESERVES				
Issued capital	93,324	86,194	86,194	93,324
Reserves	135,061	121,243	175,776	132,447
	<u>228,385</u>	<u>207,437</u>	<u>261,970</u>	<u>225,771</u>

(B) AUDITED FINANCIAL STATEMENTS

The following is the audited financial statements of the Group for the year ended 31 March 2004 together with accompany notes, extract from the Company's annual report for the year ended 31 March 2004 dated 21 July 2004.

Consolidated Income Statement

Year ended 31 March 2004

	<i>Notes</i>	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i> <i>(Restated)</i>
TURNOVER	5		
Continuing operations		15,410	12,596
Discontinued operations	6	—	84,833
		<u>15,410</u>	<u>97,429</u>
Cost of sales		<u>(20,527)</u>	<u>(72,048)</u>
Gross (loss)/profit		(5,117)	25,381
Other revenue and gain	5	1,995	4,972
Selling and distribution costs		(684)	(8,800)
Administrative expenses		(17,681)	(35,714)
Other operating expenses		(4,871)	(17,159)
Gain on disposal of subsidiaries relating to discontinued operations	6, 28(a)	—	5,943
Provisions for impairment in values of investment securities		—	(8,000)
Loss on disposal of other securities		(1,761)	(21,231)
Unrealised gain/(loss) on other securities		<u>29,597</u>	<u>(7,530)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	1,478	(62,138)
Finance costs	8	<u>(274)</u>	<u>(4,270)</u>
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		1,204	(72,649)
Discontinued operations	6	—	6,241
		<u>1,204</u>	<u>(66,408)</u>
TAX	11		
Continuing operations		—	1,600
Discontinued operations	6	—	—
		<u>—</u>	<u>1,600</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		1,204	(64,808)
Minority interests		—	110
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u>1,204</u>	<u>(64,698)</u>
EARNINGS/(LOSS) PER SHARE	13		
Basic		<u>0.01 cent</u>	<u>(0.75) cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Balance Sheet***31 March 2004*

		2004	2003
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
NON-CURRENT ASSETS			
Fixed assets	<i>14</i>	8,263	12,703
Convertible notes	<i>18</i>	—	10,500
Investment securities	<i>16</i>	—	—
		<u>8,263</u>	<u>23,203</u>
CURRENT ASSETS			
Other securities	<i>16</i>	181,298	166,606
Convertible notes	<i>18</i>	10,500	—
Inventories	<i>19</i>	4,395	3,594
Trade receivables	<i>20</i>	728	581
Prepayments, deposits and other receivables		5,165	4,031
Pledged time deposits	<i>21</i>	6,534	6,493
Cash and cash equivalents	<i>21</i>	25,650	21,191
		<u>234,270</u>	<u>202,496</u>
CURRENT LIABILITIES			
Trade and bills payables	<i>22</i>	1,683	2,750
Tax payable		363	363
Other payables and accruals		7,734	7,329
Bank overdrafts, secured	<i>23</i>	4,368	7,820
		<u>14,148</u>	<u>18,262</u>
NET CURRENT ASSETS			
		<u>220,122</u>	<u>184,234</u>
		<u>228,385</u>	<u>207,437</u>
CAPITAL AND RESERVES			
Issued capital	<i>25</i>	93,324	86,194
Reserves	<i>27(a)</i>	135,061	121,243
		<u>228,385</u>	<u>207,437</u>

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
Consolidated Statement of Changes in Equity
Year ended 31 March 2004

	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	86,194	259,399	(9,623)	556	449,820	(1,161)	(521,615)	263,570
As previously reported								
Prior year adjustment:								
SSAP12– restatement of deferred tax (<i>note 15</i>)	–	–	(4,400)	–	–	–	2,800	(1,600)
As restated	86,194	259,399	(14,023)	556	449,820	(1,161)	(518,815)	261,970
Release on disposal of discontinued operations	–	–	–	–	(638)	1,193	–	555
Impairment of goodwill (as restated) (<i>note 15</i>)	–	–	9,610	–	–	–	–	9,610
Net loss for the year (as restated)	–	–	–	–	–	–	(64,698)	(64,698)
At 31 March 2003 and 1 April 2003	86,194	259,399	(4,413)	556	449,182	32	(583,513)	207,437
Issue of shares (<i>note 25</i>)	7,130	8,201	–	–	–	–	–	15,331
Impairment of goodwill (<i>note 15</i>)	–	–	4,413	–	–	–	–	4,413
Net profit for the year	–	–	–	–	–	–	1,204	1,204
At 31 March 2004	<u>93,324</u>	<u>267,600*</u>	<u>–</u>	<u>556*</u>	<u>449,182*</u>	<u>32*</u>	<u>(582,309)*</u>	<u>228,385</u>

* These reserve accounts comprise the consolidated reserves of HK\$135,061,000 (2003: HK\$121,243,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement*Year ended 31 March 2004*

	<i>Notes</i>	2004 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i> <i>(Restated)</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		1,204	(66,408)
Adjustments for:			
Interest income	5	(921)	(3,224)
Finance costs	8	274	4,270
Gain on disposal of subsidiaries relating to discontinued operations	6	–	(5,943)
Depreciation	7	4,631	7,872
Write off of fixed assets	7	–	195
Loss/(gain) on disposal of fixed assets	5, 7	15	(32)
Impairment of goodwill	7	4,413	9,610
Provision for inventories	7	–	121
Loss on disposal of other securities		1,761	21,231
Unrealised (gain)/loss on other securities		(29,597)	7,530
Provisions for impairment in values of investment securities		–	8,000
Provision for trade receivables	7	–	3,321
Provision for other receivables	7	–	3,368
Operating loss before working capital changes		(18,220)	(10,089)
Increase in trade receivables		(147)	(9,430)
(Increase)/decrease in inventories		(801)	10,316
Increase in prepayments, deposits and other receivables		(2,012)	(1,505)
Decrease in trade and bills payables		(1,067)	(7,537)
Increase in other payables and accruals		405	11,648
Decrease in trust receipt loans		–	(4,838)
Cash used in operations		(21,842)	(11,435)
Interest paid		(274)	(4,270)
Net cash outflow from operating activities			
Continuing operations		(22,116)	(13,025)
Discontinued operations		–	(2,680)
Total		(22,116)	(15,705)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

		2004	2003
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
			<i>(Restated)</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to construction in progress		—	(3,500)
Purchases of fixed assets	14	(208)	(1,435)
Proceeds from disposal of fixed assets		2	50
Repayment of convertible notes		—	50,000
Proceeds from disposal of convertible notes		—	7,500
Purchases of other securities		(85,331)	(153,990)
Proceeds from disposal of other securities		98,475	70,503
Net cash inflow from disposal of subsidiaries relating to discontinued operations	28(a)	—	4,929
Interest received		1,799	1,796
Net cash inflow/(outflow) from investing activities			
Continuing operations		14,737	(25,268)
Discontinued operations		—	1,121
Total		14,737	(24,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of an other loan		—	4,583
Capital element of finance lease rental payments		—	(205)
Proceeds from issue of share capital	25	15,331	—
Net cash inflow/(outflow) from financing activities			
Continuing operations		15,331	(116)
Discontinued operations		—	4,494
Total		15,331	4,378
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		7,952	(35,474)
Cash and cash equivalents at beginning of year		19,864	55,338
CASH AND CASH EQUIVALENTS AT END OF YEAR		27,816	19,864

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

		2004	2003
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i> <i>(Restated)</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	20,214	1,731
Non-pledged time deposits with original maturity of less than three months when acquired	21	5,436	19,460
Time deposits with original maturity of pledged as security for banking facilities	21	6,534	6,493
Bank overdrafts		(4,368)	(7,820)
		<u>27,816</u>	<u>19,864</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Balance Sheet***31 March 2004*

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	<i>14</i>	28	111
Investments in subsidiaries	<i>17</i>	–	–
Due from subsidiaries	<i>17</i>	–	30,332
		<u>28</u>	<u>30,443</u>
CURRENT ASSETS			
Due from subsidiaries	<i>17</i>	205,630	197,210
Prepayments, deposits and other receivables		732	732
Cash and cash equivalents	<i>21</i>	10,094	3,075
		<u>216,456</u>	<u>201,017</u>
CURRENT LIABILITIES			
Tax payable		354	354
Other payables and accruals		742	794
Due to subsidiaries	<i>17</i>	28,502	22,875
		<u>29,598</u>	<u>24,023</u>
NET CURRENT ASSETS			
		<u>186,858</u>	<u>176,994</u>
		<u><u>186,886</u></u>	<u><u>207,437</u></u>
CAPITAL AND RESERVES			
Issued capital	<i>25</i>	93,324	86,194
Reserves	<i>27(b)</i>	93,562	121,243
		<u>186,886</u>	<u>207,437</u>
		<u><u>186,886</u></u>	<u><u>207,437</u></u>

Notes to Financial Statements*31 March 2004***1. Corporate Information**

The principal place of business of 139 Holdings Limited is located at Rooms 1603-5, 16/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the manufacturing, trading and distribution of car audio equipment and other merchandise, the trading of securities, and the provision of Internet and Internet-related services. There were no significant changes in the nature of the Group's principal activities during the year.

2. Impact of a Revised Statement of Standard Accounting Practice ("SSAP")

The revised SSAP 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries in prior periods.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 24 to the financial statements and include a reconciliation between the accounting profit/(loss) and the tax expense/(income) for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 24 to the financial statements.

3. Summary of Significant Accounting Policies**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of other securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investment in subsidiaries are stated at cost less any impairment losses.

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

SSAP 30 "Business combinations" was adopted as at 1 April 2001, prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Medium term leasehold land and buildings	50 years or over the lease terms, whichever is shorter
Land use rights	Over the terms of the land use rights
Leasehold improvements	Over the remaining lease terms or 3 years, whichever is shorter
Plant and machinery	7 to 10 years
Motor vehicles, furniture, fixtures and equipment	3 to 5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investment securities

Investment securities are investments in listed and unlisted securities, intended to be held for a long term purpose, and are stated at cost less any provisions for impairment in values on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Convertible notes

Convertible notes are stated at cost less any impairment losses.

Other securities

Investments other than investment securities are classified as other securities, and are held for trading purposes and stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Pursuant to the relevant regulations of Mainland China, subsidiaries of the Company operating in Mainland China participate in a local municipal government retirement benefits scheme (the “Mainland Scheme”) whereby the subsidiaries are required to contribute a percentage of the basic salaries of their employees to the Mainland Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the Mainland Scheme is to pay the ongoing required contributions under the Mainland Scheme mentioned above. Contributions under the Mainland Scheme are charged to the profit and loss account as incurred. There are no provisions under the Mainland Scheme whereby forfeited contributions may be used to reduce future contributions.

Share option schemes

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (c) from the trading of listed investments, on the transaction dates; and
- (d) dividend income, when the shareholders’ right to receive payment has been established.

Related parties

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

Continuing operations

- (a) the car audio segment manufactures and trades car audio equipment;
- (b) the Internet segment comprises the provision of Internet and Internet-related services; and
- (c) the corporate and other segment comprises the trading of other merchandise and corporate income and expense items.

Discontinued operations

- (d) the garment segment manufactured and traded garments, shoes, leather goods and other merchandise. Further details of the discontinued operations under the garment segment are set out in note 6 to the financial statements.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There are no intersegment sales and transfers between the business segments.

(a) Business segments

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

Group	Continuing operations						Discontinued operations			
	Car audio		Internet		Corporate and other		Garment		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)								(Restated)
Segment revenue:										
Sales to external customers	15,410	12,596	-	-	-	-	-	84,833	15,410	97,429
Other revenue	-	17	-	-	-	6	-	85	-	108
Total	<u>15,410</u>	<u>12,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>84,918</u>	<u>15,410</u>	<u>97,537</u>
Segment results	<u>(14,848)</u>	<u>(23,592)</u>	<u>(218)</u>	<u>(8,984)</u>	<u>(12,459)</u>	<u>(13,791)</u>	<u>-</u>	<u>4,111</u>	<u>(27,525)</u>	<u>(42,256)</u>
Gain on disposal of subsidiaries relating to discontinued operations									-	5,943
Interest income, gains and unallocated revenue									31,592	4,864
Unallocated expenses									<u>(2,589)</u>	<u>(30,689)</u>
Profit/(loss) from operating activities									1,478	(62,138)
Finance costs									<u>(274)</u>	<u>(4,270)</u>
Profit/(loss) before tax									1,204	(66,408)
Tax									-	1,600
Profit/(loss) before minority interests									1,204	(64,808)
Minority interests									-	110
Net profit/(loss) from ordinary activities attributable to shareholders									<u>1,204</u>	<u>(64,698)</u>

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FINANCIAL INFORMATION OF THE GROUP

Group	Continuing operations						Discontinued operations		Consolidated	
	Car audio		Internet		Corporate and other		Garment		2004 HK\$'000	2003 HK\$'000
	2004	2003	2004	2003	2004	2003	2004	2003		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
		(Restated)								(Restated)
Segment assets	13,835	17,226	5	5	19,553	5,336	–	–	33,393	22,567
Unallocated assets									209,140	203,132
Total assets									<u>242,533</u>	<u>225,699</u>
Segment liabilities	6,590	7,483	901	701	1,678	1,652	–	–	9,169	9,836
Unallocated liabilities									4,979	8,426
Total liabilities									<u>14,148</u>	<u>18,262</u>
Other segment information:										
Depreciation	4,439	4,544	–	33	188	302	–	2,990	4,627	7,869
Unallocated depreciation									4	3
									<u>4,631</u>	<u>7,872</u>
Impairment losses recognised in the profit and loss account	4,413	9,400	–	–	–	210	–	–	<u>4,413</u>	<u>9,610</u>
Other non-cash expenses	158	2,138	–	8,438	–	746	–	3,819	158	15,141
Unallocated other non-cash expenses									1,761	28,762
									<u>1,919</u>	<u>43,903</u>
Capital expenditure	203	852	–	–	5	138	–	4,212	<u>208</u>	<u>5,202</u>

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	People's Republic of China (including Hong Kong)		United States of America and Europe		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	–	84,833	15,410	12,596	15,410	97,429
Other revenue	–	91	–	17	–	108
	<u>–</u>	<u>84,924</u>	<u>15,410</u>	<u>12,613</u>	<u>15,410</u>	<u>97,537</u>
Other segment information:						
Segment assets	32,674	21,995	719	572	33,393	22,567
Unallocated assets					209,140	203,132
Total assets					<u>242,533</u>	<u>225,699</u>
Capital expenditure	208	5,202	–	–	<u>208</u>	<u>5,202</u>

5. Turnover, Other Revenue and Gain

Turnover represents revenue arising from the trading of garments, shoes, leather goods, car audio equipment and other merchandise, net of sale returns and trade discounts.

An analysis of the Group's turnover, other revenue and gain is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods:		
Continuing operations	15,410	12,596
Discontinued operations	–	84,833
	<u>15,410</u>	<u>97,429</u>
Other revenue		
Interest income	921	3,224
Other income	1,074	1,716
	<u>1,995</u>	<u>4,940</u>
Gain		
Gain on disposal of fixed assets	–	32
	<u>1,995</u>	<u>4,972</u>

6. Discontinued Operations

In light of sluggish sales, the ageing of the trademarks owned by the Group, significant downward pricing pressure, the high incidence of bad debts and stock obsolescence and the highly competitive business environment of the garment and shoes retail markets, the directors decided to restructure the Group's existing business operations by disposing of the Group's entire garment, shoes and leather goods business (the "Discontinuance") during the year ended 31 March 2003.

On 16 September 2002, the Group entered into a sale and purchase agreement with an independent third party for the disposal of the entire issued capital in Chaifa Holdings (B.V.I.) Limited, an investment holding company, which held the entire garment, shoes and leather goods business of the Group, for a consideration of HK\$17,000,000 in cash (the "Disposal"). The Disposal effectively resulted in the completion of the Discontinuance on 14 March 2003. Further details of the Disposal are set out in note 28(a) and in the Company's published announcement dated 17 September 2002.

The garment, shoes and leather goods business is reported under the "Garment" business segment in note 4.

Further details of the discontinued operations are set out in note 28(a) to the financial statements.

The turnover, other revenue, expenses and results attributable to the discontinued operations for the year ended 31 March 2003 were as follows:

	<i>HK\$'000</i>
TURNOVER	84,833
Cost of sales	(52,802)
Gross profit	32,031
Other revenue	190
Selling and distribution costs	(8,026)
Administrative expenses	(15,682)
Other operating expenses	(4,297)
Gain on disposal of subsidiaries relating to discontinued operations	5,943
PROFIT FROM OPERATING ACTIVITIES	10,159
Finance costs	(3,918)
PROFIT BEFORE TAX	6,241
Tax	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	6,241

7. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging:

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>
Cost of inventories sold *		13,501	58,809
Depreciation	14	4,631	7,872
Write off of fixed assets		—	195
Loss on disposal of fixed assets		15	—
Impairment of goodwill **	15	4,413	9,610
Provision for inventories		—	121
Provision for bad and doubtful debts:			
Trade receivables		—	3,321
Other receivables		—	3,368
Staff costs (including directors' remuneration— note 9)			
Wages and salaries		10,516	24,419
Retirement benefits scheme contributions ***		584	618
		<u>11,100</u>	<u>25,037</u>
Minimum lease payments under operating leases			
in respect of land and buildings		1,351	2,584
Auditors' remuneration		700	980
Exchange losses, net		<u>143</u>	<u>137</u>

* The cost of sales includes approximately HK\$4,153,000 (2003: HK\$11,595,000) relating to staff costs, depreciation and provision for inventories which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The impairment of goodwill for the year is included in "Other operating expenses" on the face of the profit and loss account.

*** At 31 March 2004, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2003: Nil).

8. Finance Costs

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	274	4,256
Interest on finance leases	—	14
	<u>274</u>	<u>4,270</u>

9. Directors' Remuneration

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive directors	—	2,160
Non-executive directors	300	300
	<u>300</u>	<u>2,460</u>
Other emoluments:		
Basic salaries, housing, allowances and benefits in kind for executive directors	3,250	3,400
Retirement benefits scheme contributions to executive directors	163	48
	<u>3,413</u>	<u>3,448</u>
	<u>3,713</u>	<u>5,908</u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	7	6
HK\$1,500,001 – HK\$2,000,000	—	1
	<u>7</u>	<u>7</u>

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Mr. Chan Chun Tung, John, an executive director, waived his director's fee for the year ended 31 March 2004 in the amount of HK\$ 2,160,000 (2003: HK\$ nil) in aggregate. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. Five Highest Paid Employees

The five highest paid employees during the year included four (2003: four) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining one (2003: one) non-director, highest paid employee for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing, allowances and benefits in kind	650	650
Retirement benefits scheme contributions	33	13
	<u>683</u>	<u>663</u>

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

11. Tax

During the year, the increase in Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004	2003
	HK\$'000	HK\$'000
		(Restated)
Current year provision:		
Hong Kong	—	—
Elsewhere	—	—
Deferred tax credit (<i>note 24</i>)	<u>—</u>	<u>1,600</u>
Tax credit for the year	<u>—</u>	<u>1,600</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates in Hong Kong and Mainland China in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong	Mainland	Total
	<i>HK\$'000</i>	<i>China</i>	<i>HK\$'000</i>
Profit/(loss) before tax	<u>6,680</u>	<u>(5,476)</u>	<u>1,204</u>
Tax at the applicable tax rate	(1,169)	1,807*	638
Lower tax rate for specific provinces or local authority	–	(310)	(310)
Income not subject to tax	349	–	349
Expenses not deductible for tax	(916)	–	(916)
Tax losses utilised	1,736	–	1,736
Tax losses for the year not recognised	<u>–</u>	<u>(1,497)</u>	<u>(1,497)</u>
Tax credit/(charge)	<u>–</u>	<u>–</u>	<u>–</u>

Group – 2003

	Hong Kong	Mainland	Total
	<i>HK\$'000</i>	<i>China</i>	<i>HK\$'000</i>
Loss before tax	<u>(52,957)</u>	<u>(13,451)</u>	<u>(66,408)</u>
Tax at the statutory tax rate	9,267	4,439*	13,706
Lower tax rate for specific provinces or local authority	–	(1,612)	(1,612)
Income not subject to tax	1,046	–	1,046
Expenses not deductible for tax	(3,844)	–	(3,844)
Tax losses for the year not recognised	<u>(6,469)</u>	<u>(1,227)</u>	<u>(7,696)</u>
Tax credit at the Group's effective rate	<u>–</u>	<u>1,600</u>	<u>1,600</u>

* The standard corporate income tax of Mainland China is 33%.

12. Net Profit/(Loss) from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company, was HK\$35,882,000 (2003: HK\$56,133,000) (note 27(b)).

13. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$1,204,000 (2003: net loss from ordinary activities attributable to shareholders HK\$64,698,000 (restated)), and the weighted average of 8,697,505,136 (2003: 8,619,360,478) ordinary shares in issue during the year.

The diluted earnings/(loss) per share for the years ended 31 March 2004 and 2003 have not been shown as the exercise prices of the outstanding share options of the Company were higher than the average market price of the Company's shares during the years, and therefore the share options were not dilutive.

14. Fixed Assets**Group**

	Leasehold land and buildings <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles, furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	13,238	821	427	13,686	5,018	33,190
Additions	–	–	–	5	203	208
Disposals	–	–	–	–	(172)	(172)
At 31 March 2004	13,238	821	427	13,691	5,049	33,226
Accumulated depreciation:						
At beginning of year	7,357	821	421	8,635	3,253	20,487
Provided during the year	1,892	–	6	1,973	760	4,631
Disposals	–	–	–	–	(155)	(155)
At 31 March 2004	9,249	821	427	10,608	3,858	24,963
Net book value:						
At 31 March 2004	3,989	–	–	3,083	1,191	8,263
At 31 March 2003	5,881	–	6	5,051	1,765	12,703

The Group is required to pay an annual fee of HK\$57,000 in respect of certain land in Mainland China used by the Group for its car audio business up to 2006 with an annual increment of 5% commencing from 1993. The annual fee paid by the Group during the year amounted to HK\$96,000 (2003: HK\$92,000). The Group's legal counsel confirmed that the Group properly owns the legal right to use the land for the period granted.

All the Group's leasehold land and buildings included above are stated at cost and are held under medium term leases outside Hong Kong.

Company

	Leasehold improvements	Furniture, fixtures and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At beginning of year and at 31 March 2004	299	415	714
Accumulated depreciation:			
At beginning of year	299	304	603
Provided during the year	—	83	83
At 31 March 2004	299	387	686
Net book value:			
At 31 March 2004	—	28	28
At 31 March 2003	—	111	111

15. Goodwill

The amount of the goodwill remaining in the Group's consolidated reserves as at 31 March 2004, arising from the acquisition of subsidiaries prior to 1 April 2001 and the adoption of SSAP 30 in 2001, is as follows:

Group

	Goodwill eliminated against consolidated reserves HK\$'000 (Restated)
Cost:	
At 1 April 2003 and at 31 March 2004	49,062
Accumulated impairment:	
At 1 April 2003	44,649
Provided during the year	4,413
At 31 March 2004	49,062
Net amount:	
At 31 March 2004	—
At 31 March 2003	4,413

The Group had goodwill arising from the acquisition of Sino Electronics Limited and its subsidiaries (collectively the "SE Group") (note 17), which carried out the car audio business of the Group, previously eliminated against consolidated reserves. SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability and goodwill previously eliminated against consolidated reserves arising from the acquisition of the SE Group during the year ended 31 March 2000 by HK\$4,400,000 (note 24). As a consequence, the goodwill eliminated against consolidated reserves at 1 April 2002 has been increased by HK\$4,400,000 and the goodwill attributable to the acquisition of the SE Group was restated to HK\$13,813,000. In the prior year, the directors estimated the recoverable amount of goodwill eliminated against consolidated reserves to be HK\$4,413,000 as at 31 March 2003. In the opinion of the directors, the additional goodwill of HK\$4,400,000 recognised as a result of the adoption of SSAP 12 should have been impaired during the year ended 31 March 2003. Accordingly, the Group recognised a further impairment on the goodwill of HK\$4,400,000 and resulted in a prior year adjustment that the aggregate impairment loss of goodwill charged to the profit and loss account amounted to HK\$9,610,000 for the year ended 31 March 2003.

The Group has made a further provision for impairment loss on the remaining balance of HK\$4,413,000 and the balance charged to the profit and loss account during the year. The impairment loss was estimated by the directors based on the recoverable amounts of the goodwill. In the opinion of the directors, such impairment losses arose from the intense competition in the car audio industry which adversely affected the profitability of the business.

16. Other Securities

Investment securities

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted equity investments outside Hong Kong, at cost	90,000	90,000
Provisions for impairment in values	(90,000)	(90,000)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	—	—

Other securities

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted debt investments in Hong Kong, at fair value	—	26,200
Listed equity investments in Hong Kong, at fair value	177,283	136,549
Unlisted investment fund	4,015	3,857
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	181,298	166,606

The market value of the Group's listed other securities at the date of approval of these financial statements was approximately HK\$171,675,000 (2003: HK\$188,536,000)

At 31 March 2004, the unlisted investment fund of HK\$4,015,000 (2003: HK\$3,857,000) was pledged to secure the banking facilities granted to the Group (note 23).

17. Interests in Subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	—	—
Due from subsidiaries	505,705	497,416
Less: Provision for impairment	(300,075)	(269,874)
	205,630	227,542
Portion classified as current assets	(205,630)	(197,210)
Non-current portion	—	30,332

Except for the aggregate amount of HK\$30,332,000 due from subsidiaries as at 31 March 2003 of which the Company had undertaken not to demand their repayment within a two-year period from 31 March 2003 and until the subsidiaries have sufficient working capital in excess of their respective normal requirements, the amounts due from subsidiaries as at the balance sheet date are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hoshing Limited	British Virgin Islands	Ordinary US\$1	100	—	Investment holding
Sino Electronics Limited	British Virgin Islands/ Hong Kong	Ordinary US\$2	—	100	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK\$2	—	100	Trading of car audio equipment
Dongguan Chongqing Electrical Limited +	Mainland China	RMB13,675,000	—	100	Manufacturing of car audio equipment

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
139 Enterprises Limited	Hong Kong	Ordinary US\$2	–	100	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK\$2	–	100	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	–	100	Trading of securities

+ Wholly-owned foreign enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Convertible Notes

On 31 May 2001, the Group subscribed for convertible notes issued by Wonson International Holdings Limited (“Wonson Convertible Notes”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and independent of the Group. The convertible notes bore interest at the rate of 7% per annum, were unsecured and matured on 2 July 2004. The Wonson Convertible Notes were convertible into approximately 642,857,000 ordinary shares of Wonson at an initial price of HK\$0.028 per share and the conversion prices would be HK\$0.031 and HK\$0.034 per share for the period from the date immediately following the first anniversary from the date of issue of the convertible notes (the “Issue Date”) to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date, respectively. These conversion prices were subject to adjustment. The Wonson Convertible Notes matured on 2 July 2004 and Wonson International Holdings Limited repaid all the outstanding principal amount of the Wonson Convertible Notes, together with interest accrued, in cash to the Group.

	Group	
	2004 HK\$'000	2003 HK\$'000
Wonson Convertible Notes	10,500	10,500
Portion classified as current assets	(10,500)	–
Non-current portion	–	10,500

19. Inventories

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	2,716	1,563
Work in progress	1,187	1,222
Finished goods	492	809
	<u>4,395</u>	<u>3,594</u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$1,096,000 (2003: HK\$1,345,000) as at 31 March 2004.

20. Trade Receivables

An aged analysis of the Group's trade receivables as at the balance sheet date is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 120 days	719	581
121 – 210 days	9	–
	<u>728</u>	<u>581</u>

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within three months of issuance, except for established customers where the terms are extended to six months. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. The Group's trade receivables are recognised and carried at their original invoiced amount less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

21. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	20,214	1,731	10,094	73
Time deposits	11,970	25,953	–	3,002
	32,184	27,684	10,094	3,075
Less: Pledged time deposits for bank overdraft facilities (note 23)	(6,534)	(6,493)	–	–
Cash and cash equivalents	<u>25,650</u>	<u>21,191</u>	<u>10,094</u>	<u>3,075</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$279,000 (2003: HK\$30,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. Trade and Bills Payables

An aged analysis of the Group’s trade and bills payables as at balance sheet date, based on invoice date, is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 120 days	1,601	2,547
121 – 210 days	77	197
Over 210 days	5	6
	<u>1,683</u>	<u>2,750</u>

23. Pledge of Assets

As at 31 March 2004, the Group’s banking facilities were secured by the following:

- (a) Fixed deposits of HK\$6,534,000 (2003: HK\$6,493,000) owned by the Group (note 21); and
- (b) An unlisted investment fund of HK\$4,015,000 (2003: HK\$3,857,000) owned by the Group (note 16).

24. Deferred Tax

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities**Group**

**Fair value
adjustments
arising from
acquisition of
subsidiaries**
HK\$'000

At 1 April 2002

As previously reported

—

Prior year adjustment:

SSAP 12 – restatement of deferred tax

1,600

As restated

1,600

Deferred tax credited to the profit and loss account
during the year (*note 11*)

(1,600)

Deferred tax liabilities

At 31 March 2003 and 2004

—

The Group has tax losses arising in Hong Kong and Mainland China of HK\$161,080,000 (2003: HK\$171,920,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy resulted in an increase in the Group's deferred tax liability and goodwill previously eliminated against consolidated reserves arising from the acquisition of the SE Group during year ended 31 March 2000 by HK\$4,400,000, respectively. As a consequence, the consolidated net loss attributable to shareholders for the year ended 31 March 2003 has been increased by HK\$2,800,000 due to the net effect on recognition of deferred tax credit of HK\$1,600,000 and the additional impairment loss on goodwill previously eliminated against consolidated reserves of HK\$4,400,000 (note 15) and the consolidated accumulated losses at 1 April 2002 have been reduced by HK\$2,800,000, as detailed in the consolidated statement of changes in equity.

25. Share Capital**Shares**

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised:		
60,000,000,000 ordinary shares of HK\$0.01 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
9,332,430,478 (2003: 8,619,360,478) ordinary shares of HK\$0.01 each	<u>93,324</u>	<u>86,194</u>

During the year, 713,070,000 share options were exercised at the subscription price of HK\$0.0215 per share, resulting in the issue of 713,070,000 ordinary shares of HK\$0.01 each for a total cash consideration of approximately HK\$15,331,000.

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2002, 31 March 2003 and 1 April 2003	8,619,360,478	86,194	259,399	345,593
Share options exercised	<u>713,070,000</u>	<u>7,130</u>	<u>8,201</u>	<u>15,331</u>
Issued share capital as at 31 March 2004	<u>9,332,430,478</u>	<u>93,324</u>	<u>267,600</u>	<u>360,924</u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 26.

26. Share Option Schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 22 February 1994, the Company adopted a share option scheme (the “Old Scheme”) in order to attract, retain and motivate high-calibre employees of the Group. Under the Old Scheme, the directors may, on or before 21 February 2004, at their discretion, make an offer to any employee of the Company or any of its subsidiaries, including directors of the Company or any such subsidiary, for the grant of options to subscribe for shares of the Company. The subscription price is the higher of 80% of the average of the closing share prices on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Old Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Old Scheme. The offer for the grant of share options may be accepted within 40 days from the date of the offer. An amount of HK\$1 is payable by the grantee of an option upon acceptance of the grant of the option. There was no share option granted under the Old Scheme which remained outstanding as at 31 March 2004.

The Old Scheme was terminated on 27 August 2003 and a new share option scheme (the “New Scheme”), which complies with the new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes, was adopted pursuant to the ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 27 August 2003. Upon adoption of the New Scheme, no options have been granted under the Old Scheme from 27 August 2003.

Under the New Scheme, eligible participants include the Company’s directors, including independent non-executive directors, other employees of the Group or any invested entity, suppliers of goods or services to the Group or any invested entity, customers of the Group or any invested entity, shareholders of the Group or any invested entity, holders of securities of the Group or any invested entity and persons or entities that provide research, development or other technological support to the Group or any invested entity. The New Scheme became effective on 27 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of a approval of the New Scheme, i.e. 861,936,047 shares, unless approval for refreshing the 10% limit from the Company’s shareholders has been obtained. The maximum number of shares issued and to be issued under share options to each eligible participant in the New Scheme (including exercised, cancelled and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Under the New Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company’s shares at the date of the grant) in excess of HK\$5,000,000, is subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options subject to the provisions for early termination set out in the New Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised.

The exercise price of the share options granted under the New Scheme is determined by the directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Since the date of adoption of the New Scheme, no option have been granted under the New Scheme. As at the date of this annual report, the total number of shares available for issue under the New Scheme is 861,936,047 shares, representing 9.24% of the total issued share capital of the Company on that date.

The movements of the share options granted under the Old Scheme during the year are as follows:

		Number of share options						Price of Company's shares	
Name or category of participant	At 1 April 2003	Lapsed during the year	Exercised during the year	At 31 March 2004	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$	At grant date of options *** HK\$	At exercise date of options*** HK\$
Directors									
Mr. Chan Chun Tung, John	# 2,400,000	(2,400,000)	-	-	29 September 1997	27 March 2000 to 21 February 2004	# 0.1888	0.155	-
Mr. Wong Howard	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
Mr. Wong Yat Fai	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
Mr. Wu Qing	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
	<u>641,370,000</u>	<u>(2,400,000)</u>	<u>(638,970,000)</u>	<u>-</u>					
Other employees									
In aggregate	80,100,000	(6,000,000)	(74,100,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
	<u>721,470,000</u>	<u>(8,400,000)</u>	<u>(713,070,000)</u>	<u>-</u>					

There were no share options granted or cancelled during the year.

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's share disclosed regarding the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed regarding the exercise of the share options is the weighted average of the Stock Exchange closing price of the shares immediately before the date on which the options were exercised..
- # The number of shares exercisable and the exercise price of the share options granted were adjusted following the rights issue of shares of the Company on 27 March 2000.

The 713,070,000 share options exercised during the year resulted in the issue of 713,070,000 additional ordinary shares of the Company for a total cash consideration of approximately HK\$15,331,000 (note 25).

No theoretical value of share options is disclosed as no share options were granted during the year.

27. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 42 of this circular.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years were eliminated against consolidated reserves as explained in note 15 to the financial statements.

The contributed surplus of the Group arose as a result of the Group reorganisation on the listing of the Company's shares in 1994, and represents the difference between the nominal value of the shares of the former holding company of the Group prior to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

In addition, pursuant to special and ordinary resolutions passed at the special general meeting held on 22 September 2000, the issued and fully paid share capital of the Company was reduced by HK\$448,992,000 through a reduction in the nominal value of the share capital of the Company. The credit arising as a result of the reduction of the share capital account of approximately HK\$448,992,000 was transferred to the contributed surplus account.

(b) Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	259,399	556	492,681	(575,260)	177,376
Net loss for the year	—	—	—	(56,133)	(56,133)
At 31 March 2003 and at 1 April 2003	259,399	556	492,681	(631,393)	121,243
Premium upon issue of shares (<i>note 25</i>)	8,201	—	—	—	8,201
Net loss for the year	—	—	—	(35,882)	(35,882)
At 31 March 2004	<u>267,600</u>	<u>556</u>	<u>492,681</u>	<u>(667,275)</u>	<u>93,562</u>

Note:

The contributed surplus of the Company arose as a result of the Group reorganisation scheme referred to in (a) above and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor.

In addition, the reduction in share capital described in (a) above also resulted in a credit of approximately HK\$448,992,000 being transferred to the Company's contributed surplus account.

28. Notes to the Consolidated Cash Flow Statement

(a) Disposal of subsidiaries

	2004	2003
	HK\$ '000	HK\$ '000
Net assets disposed of:		
Fixed assets	—	25,135
Construction in progress	—	4,702
Investment securities	—	160
Inventories	—	26,764
Trade receivables	—	71,534
Tax recoverable	—	8
Prepayments, deposits and other receivables	—	1,452
Pledged time deposits	—	11,195
Cash and bank balances	—	1,639
Trade and bills payables	—	(23,979)
Other payables and accruals	—	(21,115)
Interest-bearing bank and other borrowings	—	(87,303)
	—	10,192
Incidental costs of disposal	—	310
Release of reserves on disposal	—	555
Gain on disposal of discontinued operations recognised in the consolidated profit and loss account* (note 6)	—	5,943
	—	17,000
Satisfied by:		
Cash	—	17,000

* There was no tax arising from the disposal.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries relating to the discontinued operations is as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	–	17,000
Incidental costs of disposal	–	(310)
Cash and bank balances disposed of	–	(1,639)
Pledged time deposits disposed of	–	(11,195)
Bank overdrafts disposed of	–	1,073
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries relating to the discontinued operations	–	4,929

The subsidiaries disposed of during the year ended 31 March 2003 contributed HK\$84,833,000 to the Group's turnover and reduced the consolidated loss after tax and before minority interests for the year ended 31 March 2003 by HK\$6,241,000.

- (b) During the year ended 31 March 2003, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$267,000.

29. Operating Lease Arrangements

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,440	919
In the second to fifth years, inclusive	142	673
	1,582	1,592

In addition, the Group is required to pay an annual fee of HK\$57,000 in respect of the use of certain land in Mainland China for its car audio business up to 2006 with an annual increment of 5% commencing from 1993. The total future annual fee payable within one year and in the second to fifth years, inclusive, from the balance sheet date amounted to HK\$101,000 and HK\$134,000, respectively.

30. Commitments

Apart from the operating lease commitment detailed in note 29 above, the Group and the Company did not have any significant commitments at 31 March 2004.

The Group had commitments under forward foreign exchange contracts of HK\$1,513,000 at 31 March 2003.

31. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	109	–
	<u> </u>	<u> </u>
	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	12,997
	<u> </u>	<u> </u>

As at 31 March 2004, the credit facilities granted to a subsidiary of the Company in respect of securities trading subject to unlimited corporate guarantees provided by the Company were not utilised.

32. Related Party Transactions

- (a) During the year ended 31 March 2003, Mr. Chan Chun Tung, John, a director of the Company, executed personal guarantees to the extent of HK\$54,740,000 and pledged a personal fixed deposit for the banking facilities granted to certain subsidiaries which were disposed of by the Group during the year ended 31 March 2003, for nil consideration.
- (b) During the year ended 31 March 2003, a rental expense of HK\$270,000 relating to office premises was paid to Mr. Chan Chun Tung, John. The amount of the rental paid was determined between the Group and Mr. Chan Chun Tung, John.
- (c) During the years ended 31 March 2003 and 2004, the Company provided corporate guarantees for banking facilities granted to Chaifa Investment Limited, a company which was disposed of by the Group in the prior year relating to the discontinued operations and in which Mr. Chan Chun Tung, John, is a director, to the extent of HK\$12,997,000 for nil consideration. The corporate guarantees were released during the year.

33. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

34. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 21 July 2004.

**(C) UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30
SEPTEMBER 2004**

The following is the unaudited condense financial statements of the Group for the six months ended 30 September 2004 together with accompany notes, extracted from the Company's interim report for the six months ended 30 September 2004.

Condensed Consolidated Income Statement

For the six months ended 30 September 2004 – Unaudited

		For the six months ended 30 September	
		2004	2003
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Turnover	2	4,930	8,522
Cost of Sales		(8,451)	(11,089)
Gross Loss		(3,521)	(2,567)
Other revenue	3	3,165	1,185
Selling and distribution costs		(219)	(338)
Administrative expenses		(7,389)	(7,321)
Other operating expenses		(77)	(87)
Gain on disposal of other securities		22,789	15,830
Unrealised gain/(loss) on other securities		(17,272)	62,975
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	(2,524)	69,677
Finance costs	5	(90)	(136)
PROFIT/(LOSS) BEFORE TAX		(2,614)	69,541
Tax	6	–	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(2,614)	69,541
DIVIDEND	7	–	–
EARNINGS/(LOSS) PER SHARE	8		
– Basic		HK(0.03) cent	HK0.81cent
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		6,050	8,263
Investment securities	9	—	—
		<u>6,050</u>	<u>8,263</u>
CURRENT ASSETS			
Other securities	9	158,694	181,298
Convertible notes		—	10,500
Inventories	10	3,197	4,395
Trade receivables	11	32	728
Prepayments, deposits and other receivables		6,850	5,165
Pledged time deposits		6,547	6,534
Cash and cash equivalents		54,430	25,650
		<u>229,750</u>	<u>234,270</u>
CURRENT LIABILITIES			
Trade and bills payables	12	842	1,683
Tax payable		363	363
Other payables and accruals		7,773	7,734
Bank overdrafts, secured		1,051	4,368
		<u>10,029</u>	<u>14,148</u>
NET CURRENT ASSETS		<u>219,721</u>	<u>220,122</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>225,771</u></u>	<u><u>228,385</u></u>
CAPITAL AND RESERVES			
Issued Capital	13	93,324	93,324
Reserves		132,447	135,061
		<u>225,771</u>	<u>228,385</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

Group

	Unaudited six months ended 30 September 2004							
	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2004	93,324	267,600*	–	556*	449,182*	32*	(582,309)*	228,385
Net loss for the Period	–	–	–	–	–	–	(2,614)	(2,614)
As at 30 September 2004	93,324	267,600*	–	556*	449,182*	32*	(584,923)*	225,771

	Unaudited six months ended 30 September 2003							
	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated profit/(losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2003	86,194	259,399	(4,413)	556	449,182	32	(583,513)	207,437
Net profit for the Period	—	—	—	—	—	—	69,541	69,541
As at 30 September 2003	86,194	259,399*	(4,413)*	556*	449,182*	32*	(513,972)*	276,978

* These reserve accounts comprise the consolidated reserves of HK\$132,447,000 (31 March 2004: HK\$135,061,000) in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,464)	(10,219)
NET CASH INFLOW FROM INVESTING ACTIVITIES	38,574	27,906
CASH FLOW FROM FINANCING ACTIVITIES	—	—
INCREASE IN CASH AND CASH EQUIVALENTS	32,110	17,687
Cash and cash equivalents at beginning of period	27,816	19,864
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>59,926</u>	<u>37,551</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,982	4,215
Non-pledged time deposits with original maturity of less than three months when acquired	44,448	32,827
Time deposits with original maturity of less than three months when acquired, pledged as security for bank facilities	6,547	6,523
Bank overdrafts	(1,051)	(6,014)
	<u>59,926</u>	<u>37,551</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Accounting Policies

These condensed consolidated interim financial statements have not been audited by the Company's Auditors but have been reviewed by the Company's Audit Committee.

The unaudited condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the preparation of the Company's audited consolidated financial statements for the year ended 31 March 2004.

2. Turnover and Segmental Information

(i) Primary reporting format-business segments

For the management purpose, the Group is currently organised into two operating divisions—car audio and corporate & others. The following tables present unaudited revenue and results of the Group's operation for the Period, together with comparative figures for the corresponding previous period:

Group	Car audio		Corporate & others		Consolidated	
	For the six months ended 30 September 2004 (Unaudited) HK\$'000	For the six months ended 30 September 2003 (Unaudited) HK\$'000	For the six months ended 30 September 2004 (Unaudited) HK\$'000	For the six months ended 30 September 2003 (Unaudited) HK\$'000	For the six months ended 30 September 2004 (Unaudited) HK\$'000	For the six months ended 30 September 2003 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	4,930	8,522	—	—	4,930	8,522
Other revenue	—	—	—	—	—	—
Total	<u>4,930</u>	<u>8,522</u>	<u>—</u>	<u>—</u>	<u>4,930</u>	<u>8,522</u>
Segment results	<u>(5,320)</u>	<u>(4,859)</u>	<u>(5,690)</u>	<u>(5,141)</u>	<u>(11,010)</u>	<u>(10,000)</u>
Interest income, gains and unallocated revenue					25,954	79,990
Unallocated expenses					<u>(17,468)</u>	<u>(313)</u>
Profit/(loss) from operating activities					(2,524)	69,677
Finance costs					<u>(90)</u>	<u>(136)</u>
Profit/(loss) before tax					(2,614)	69,541
Tax					—	—
Net profit/(loss) from ordinary activities attributable to shareholders					<u>(2,614)</u>	<u>69,541</u>

(ii) Secondary reporting format -geographical segments

An analysis of the Group's unaudited turnover and results for the Period by geographical segments, together with comparative figures for the corresponding previous period are as follows:–

Group

	The People's Republic of China (the "PRC") (including Hong Kong)		United States of America and Europe		Consolidated	
	For the six months ended 30 September 2004 (Unaudited) HK\$'000	For the six months ended 30 September 2003 (Unaudited) HK\$'000	For the six months ended 30 September 2004 (Unaudited) HK\$'000	For the six months ended 30 September 2003 (Unaudited) HK\$'000	For the six months ended 30 September 2004 (Unaudited) HK\$'000	For the six months ended 30 September 2003 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	–	–	4,930	8,522	4,930	8,522
Other revenue	–	–	–	–	–	–
Total	–	–	4,930	8,522	4,930	8,522
Segment results	(5,690)	(5,141)	(5,320)	(4,859)	(11,010)	(10,000)

3. Other revenue

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest income	271	538
Others	2,894	647
	3,165	1,185

4. Profit/(Loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging :–

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	2,259	2,325

5. Finance costs

	For the six months ended 30 September	
	2004	2003
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on		
bank loans, overdraft and other loans		
wholly repayable within five years	90	136
	<u> </u>	<u> </u>

6. Tax

No Hong Kong profits tax has been provided during the Period (2003: Nil) as the Group did not derive any assessable profit attributable to its operation in Hong Kong.

No provision for tax in the PRC has been made during the Period (2003: Nil) since no assessable profit has been generated by the subsidiaries operating in the Mainland China. The other overseas subsidiaries did not generate any profit subject to foreign taxes during the Period (2003: Nil) .

No deferred tax has been provided by the Group because there were no significant temporary differences at the balance sheet dates.

7. Dividend

The Board has resolved not to pay any interim dividend for the six months ended 30 September 2004 (2003: Nil).

8. Earnings/(Loss) per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$2,614,000 (2003: net profit of HK\$69,541,000) and the 9,332,430,478 (2003: weighted average of 8,619,360,478) ordinary shares in issue during the Period.

The diluted loss per share for the period ended 30 September 2004 has not been shown as there were no outstanding share options during the Period.

The diluted earnings per share for the period ended 30 September 2003 has not been shown as the exercise prices of outstanding share options of the Company were higher than the average market price of the Company's shares during this period and therefore the share options were not dilutive.

9. Other securities

	At 30 September 2004 <i>(Unaudited)</i> HK\$'000	At 31 March 2004 <i>(Audited)</i> HK\$'000
Investment securities:		
Unlisted equity investments		
outside Hong Kong, at cost	90,000	90,000
Provision for impairment in value	(90,000)	(90,000)
	<u> </u>	<u> </u>
	—	—
Other securities:		
Listed equity investments in Hong Kong,		
at fair value	154,682	177,283
Unlisted investment fund	4,012	4,015
	<u> </u>	<u> </u>
	158,694	181,298
	<u> </u>	<u> </u>

The market value of the Group's listed other securities at the date of approval of these financial statements was approximately HK\$200,665,000 (31 March 2004: HK\$171,675,000).

10. Inventories

	At 30 September 2004 <i>(Unaudited)</i> HK\$'000	At 31 March 2004 <i>(Audited)</i> HK\$'000
Raw materials	2,634	2,716
Work in progress	223	1,187
Finished goods	340	492
	<u> </u>	<u> </u>
	3,197	4,395
	<u> </u>	<u> </u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$366,000 (at 31 March 2004: HK\$1,096,000).

11. Trade receivables

Ageing analysis:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
0 – 120 days	–	719
121 – 210 days	24	9
Over 210 days	8	–
Total	<u>32</u>	<u>728</u>

Trading terms with customers are largely on credit except for new customers where payment in advance is normally required. Invoices are normally payable within three months of issuance, except for established customers where the terms are extended to six months. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict credit control over its outstanding receivables and overdue balances are regularly reviewed by senior management. The Group's trade receivables are recognised and carried at their original invoiced amount less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

12. Trade and bills payables

Ageing analysis:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
0 – 120 days	603	1,601
121 – 210 days	193	77
Over 210 days	46	5
Total	<u>842</u>	<u>1,683</u>

13. Share capital

	Number of Shares <i>'000</i>	Nominal Value <i>HK\$ '000</i>
Authorised		
– ordinary shares of HK\$0.01 each		
As at 1 April and 30 September 2004	<u>60,000,000</u>	<u>600,000</u>
Issued and fully paid		
– ordinary shares of HK\$0.01 each		
As at 1 April and 30 September 2004	<u>9,332,430</u>	<u>93,324</u>

14. Related party transactions

During the Period, the Group had no related party transactions.

MANAGEMENT DISCUSSION AND ANALYSIS**Review for the year ended 31 March 2002 of the Group**

The Group's turnover for the year ended 31 March 2002 decreased by HK\$24 million, or 15% to HK\$134 million. The loss attributable to the Shareholders for the year ended 31 March 2002 decreased by HK\$230 million, or 83% to HK\$48 million. The Board did not recommend the payment of any final dividend in respect of the year (2001: Nil).

The Group's overall performance for the year ended 31 March 2002 was adversely affected by the diminution in the value of technology related investments. The decrease in turnover reflected the deteriorating garment, shoes and leather goods businesses, coupled with the sudden drop-off in the demand for the car audio products in the aftermath of tragic event of September 11 in the United States.

Garment, shoes and leather goods business

During the year ended 31 March 2002, the Group's garment, shoes and leather goods businesses were struggling amid the keen market competition and the downward price spiral. The sale of garment, shoes and leather goods for the year ended 31 March 2002 decreased by 12% to HK\$105 million. To react to these declining businesses in terms of the disappointing sales and diminishing margin, the Group had strictly implemented and monitored the remedial action plan by taking a serious retrenchment in working capital investment and a tight control over the operational costs. Through the tight credit and inventory control, the incidence of doubtful debts and stock obsolescence was minimized. The remedial action has substantially cushioned the adverse financial impact of possible bad debts and stock obsolescence from further weighing on the gross profit for the year ended 31 March 2002. The positive segment results for the year ended 31 March 2002 had illustrated our progress and a great deal of efforts placing in implementing the remedial action plan.

Car audio business

The sales of car audio products for the year ended 31 March 2002 had dropped by 36% to HK\$25 million in the aftermath of tragic event of September 11 in the United States. This tragic event had severely affected the business attitude and market confidence, particularly in that of the United States market. In fear of a further downshift in the economy, distributors and importers in the United States shortened their orders placing cycle and reduced their inventory-holdings in the second half of the year ended 31 March 2002. In this increasingly difficult market situation, the Group's car audio business had recorded an operating loss of approximately HK\$6 million during the year ended 31 March 2002. In response to this adversity, the Group had endeavored to maintain the existing sales volume, strengthen its relationship with the existing customers and to continue to take a prudent attitude in achieving the new risky orders.

Internet and internet related business

A confluence of unfavorable external factors encompassing the meltdown of high-tech bubble, tragic event of September 11 in the United States and adverse changes in related regulations shaped the performance and development of the Group's internet and internet related business for the year. These unfavorable external factors inflicted a great deal of pain on the high-tech and internet businesses and inhibited the Group's initiative for diversification into the high technology based business. As a result, the Group had to slow down the pace of its development and further write down the value of the existing invested projects. In view of the severe shakeout that hit the high-tech sectors, the Group became very cautious and stringent in appraising the suitability and viability of the potential projects, especially for the high-tech business.

Financial review

The loss attributable to shareholders of the Company for the year ended 31 March 2002 decreased by HK\$230 million, or 83% to HK\$48 million. As at 31 March 2002, the Group's net asset value increased by HK\$57 million, or 28% to HK\$264 million. The Group's current ratio was improved from 1.7 times to 2.3 times. As at 31 March 2002, the Group had no long term interest-bearing bank and other loans.

Liquidity and financial resources

During the year ended 31 March 2002, the Group generally financed its operation with internally generated cash flow, banking facilities and new placing shares. The Group's bank and short term deposits as at 31 March 2002 amounted to HK\$49 million.

As at 31 March 2002, the total amount of interest bearing bank and other loans of the Group was maintained at HK\$93 million (at 31 March 2001: HK\$93 million) which were repayable with one year,

As at 31 March 2002, the Group had contingent liabilities in relation to guarantees given to banks in connection with facilities granted to the Company's subsidiaries was HK\$51 million (at 31 March 2001: HK\$51 million). The bank facilities were utilised to the extent of approximately HK\$30 million (at 31 March 2001: HK\$34 million).

Capital structure

As at 31 March 2002, the Group's gearing ratio was 22% (at 31 March 2001: 27%) based on short term and long term interest-bearing and other loans of HK\$57 million (at 31 March 2001: HK\$56 million) and net worth of HK\$264 million (at 31 March 2001: HK\$207 million).

The Group's bank deposit and borrowings were mainly denominated in Hong Kong dollars. Most of Group's sales and purchases were made in the United States dollars and Hong Kong dollars. Therefore, the exchange risks exposed to the Group was minimal.

On 11 June 2001, the Company had placed a total of 1,197,000,000 new shares at HK\$0.03 per placing share representing 19.99% of its total issued share capital at that time. The net proceeds of from the placing of approximately HK\$34.9 million was used as additional working capital for the Group.

On 3 August 2001, the Company had placed a total of 1,436,560,000 new shares at a price of HK\$0.025 per placing share representing 19.99% of its total issued share capital at that time. The net proceeds from the placing of approximately HK\$34.9 million was used as additional working capital for the Group.

Details of charges on assets

As at 31 March 2002, certain leasehold land and building land use right, with a net book value of approximately HK\$23 million and fixed deposit of HK\$13 million, were pledged to secure banking facilities granted to the Group.

Material acquisition and disposals

During the year ended 31 March 2002, the Group had no material acquisition or disposal.

Employment

As at 31 March 2002, the Group had a total of 1,015 employees, of which 49 are based in Hong Kong and 966 based in PRC. The Group had committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages were maintained at competitive level and reviewed on a periodic basis. Bonus and share options were awarded to certain employees according to the assessment of individual performance and industry practice.

Review for the year ended 31 March 2003 of the Group

The Group's turnover for the year ended 31 March 2003 decreased by HK\$36 million, or 27% to HK\$97 million. The loss attributable to shareholders for the year ended 31 March 2003 increased by HK\$14 million, or 28% to HK\$62 million. The Board did not recommend the payment of any final dividend in respect of the year ended 31 March 2003 (2002: nil).

During the year ended 31 March 2003, the Group had completed its operational restructuring by disposing of its garment, shoes and leather goods business. The Group's car audio business continued to be adversely affected by intense market competition and global economic uncertainties, particularly in the United States. In the face of the uncertain global economic and financial picture for the year ended 31 March 2003, the Group had been diligently identifying investment opportunities that strategically fit into its diversification moves.

Garment, shoes and leather goods business

In view of the persistent downward price pressures, high incidence of bad debts and stock obsolescence and the highly competitive business environment of retail market, the Board believed that the garment, shoes and leather goods business in the PRC would become more and more competitive. As such, the Group had decided to restructure its existing business operations by disposing of its garment, shoes and leather goods business.

On 16 September 2002, the Group entered into a sales and purchase agreement with an independent third party for the disposal of the entire issued share capital in Chaifa Holdings (B.V.I.) Limited, an investment holding company which held the entire garment, shoes and leather goods business for a consideration of HK\$17 million in cash. The details of which have been provided in announcement dated 17 September 2002. The transaction was completed on 14 March 2003. The gain on the disposal of the discontinued operations was approximately HK\$5.9 million. The Board believes that the disposal will allow the Group to reduce its exposure in the garment and shoes business which suffered significant loss as a result of significant provision for doubtful debts and stock obsolescence.

Car audio business

The sales of car audio products for the year ended 31 March 2003 fell by 56% to HK\$12 million. The segment loss increased from HK\$6.0 million to HK\$19 million. Stripping out the impairment of goodwill HK\$5 million and the provision for doubtful debts of HK\$2 million, the operational loss for this segment was HK\$12 million.

The sharp sales decrease was mainly due to the recent financial restructuring of a major customer in the United States market. This reflected the mounting price pressures, the rapid deteriorating profit margins and intense market competition prevailing in the car audio business as a whole. Due to the sudden outbreak of Iraq war in the second half of the year ended 31 March 2003, the aggregate market demand for the car audio products had become more stagnant and the inventory stocking remained excessive on retail shelves and at warehouses. Importers and distributors in the markets, in particular, the United States continued to substantially reduce the inventory buildup in earnest by slashing future sales orders. This resulted in a cut-throat price competition in the car audio manufacturing market.

Against this backdrop, the Group had taken a course of proactive and remedial initiatives to reduce the incidence of fixed manufacturing overheads. The operational and financial corrective actions taken included trimming down the scale of operations, enhancing the operational efficiency and subcontracting the low-end products to business partners. For the year ended 31 March 2003, the Group had taken immediate measures to reduce the fixed manufacturing overheads through the cost reduction exercise. Such cost savings was beginning to realize and narrow the increasing operational loss in the year to come.

Financial review

The loss attributable to shareholders for the year ended 31 March 2003 increased by HK\$14 million to HK\$62 million as compared with the year ended 31 March 2002. As at 31 March 2003, the Group's net asset value stood at HK\$207 million (31 March 2002: HK\$264 million). The Group's overall liquidity and gearing position was significantly improved as a result of disposal of the debt laden garment shoes and leather goods business.

Liquidity and financial resources

During the year ended 31 March 2003, the Group generally financed its operation with internally generated cash flow and banking facilities. The Group's bank and short term deposits as at 31 March 2003 amounted to HK\$21 million (at 31 March 2002: HK\$49 million).

As at 31 March 2003, the total interest bearing bank and other borrowings of the Group maintained at HK\$8 million (at 31 March 2002: HK\$93 million) which are repayable within one year.

As at 31 March 2003, the banking facilities granted to, a previously wholly-owned subsidiary which was disposed of, during the year ended 31 March 2003 subject to corporate guarantees given to banks by the Company were utilised to the extent of approximately HK\$13 million (at 31 March 2002: HK\$30 million).

Capital structure

As at 31 March 2003, the Group's gearing ratio was 4% (at 31 March 2002: 35%) based on the total interest-bearing bank and other borrowings of HK\$8 million (at 31 March 2002: HK\$93 million) and net worth of HK\$207 million (at 31 March 2002: 264 million).

The Group bank deposit and borrowings are mainly denominated in Hong Kong dollar. Most of Group's sales and purchase were made in United States dollar, Renminbi and Hong Kong dollar. Therefore, the exchange risks exposed to the Group was minimal.

Significant investment

As at 31 March 2003, the Group had convertible notes issued by Wonson International Holdings Limited listed on The Stock Exchange with carrying amount of HK\$10.5 million.

As at 31 March 2003, the Group maintained a portfolio of other securities with market value of HK\$166.6 million. Due to the market volatility of returns and poor investor sentiment on equity markets, the Group recorded a realised loss of HK\$21.2 million and an unrealised loss of HK\$7.5 million on other securities respectively during the year ended 31 March 2003.

The interest and dividend income for the convertible notes and other securities for the year was HK\$4.5 million. The Group would continue to maintain a positive view on the performance of its portfolio of investments for the year to come.

Details of charges on assets

As at 31 March 2003, a fixed deposit of HK\$6 million and an unlisted investment fund of HK\$3.9 million were pledged to secure banking facilities granted to the Group.

Material acquisitions and disposals

During the year ended 31 March 2003, the Company had no other material acquisition and disposal of other subsidiaries and associates except for the disposal of its entire issued share capital in Chaifa Holdings (B.V.I) Limited, a former wholly-owned subsidiary of the Company.

Employment

As at 31 March 2003, the Group had a total 219 employees of which 26 were based in Hong Kong and 193 based in Mainland China. The Group had committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages were maintained at competitive level and reviewed on a periodic basis. Bonus and share options were awarded to certain employees according to the assessment of individual performance and industry practice.

Review for the year ended 31 March 2004 of the Group

The Group's turnover for the year ended 31 March 2004 decreased by HK\$82 million, or 84% to HK\$15 million. The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 was HK\$1.2 million, comparing to a net loss of HK\$65 million for the year ended 31 March 2004. The Board did not recommend the payment of any final dividend in respect of the year ended 31 March 2004 (2003: nil).

The decrease in Group's turnover for the year ended 31 March 2004 was primarily due to the disposal of garment, shoes and leather goods business in March 2003. The positive bottom-line was mainly due to the fact that an unrealized gain on other securities of HK\$30 million was recorded for the year ended 31 March 2004. During the year ended 31 March 2004, the Group had continued to keep a strict control over the manufacturing overheads of its car audio operation and diligently look for new business investments for its strategic and organic growth.

Car audio business

The sales of car audio products for the year ended 31 March 2004 was increased by HK\$3 million or 22%, to HK\$15 million. Stripping off the impairment charges of goodwill of HK\$4 million, the operational loss for this segment was decreased by HK\$2 million or 15% to HK\$10 million.

During the year, the Group's car audio market has associated with shortage of selected ICs, rising raw materials costs and intense price pressures from dominant competitors. Amidst this difficult market situation, the car audio business had experienced further profit margin erosion, longer lead times for product delivery and higher key electronic component inventory holdings. To react to these unfavorable market factors, the Group, intensified its efforts to achieve an effective cost structure by value based outsourcing and leaning its operations. Such remedial initiatives had cushioned against parts of the adverse effects of falling margin and narrowed the increasing operating loss for the year ended 31 March 2004.

To survive with dominant competitors in the existing car audio market, the Group had focused on the smaller market segments where its strength was valued. To increase its competitive flexibility, the Group had been working closely with its business partners on value based outsourcing, trading and product proliferation. During the year ended 31 March 2004, the Group had started to subcontract an assembly works of its products to the business partners and concentrated on the upkeep of its core technology, new products designs and research and development. Several existing models with new features were successfully developed and launched. Product samples approval and the trial productions orders were in the pipeline. The sales and marketing team had aligned its efforts to secure the new sales orders.

Financial review

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 was HK\$1.2 million, comparing to a net loss of HK\$65 million for the year ended 31 March 2003. As at 31 March 2004, the Group's net asset value stood at HK\$228 million (at 31 March 2003: HK\$207 million). The Group's overall liquidity and gearing position was improved.

Liquidity and financial resources

During the year ended 31 March 2004 under review, the Group generally financed its operation with internally generated cash flow and banking facilities. The Group's bank and short term deposits as at 31 March 2004 amounted to HK\$26 million (at 31 March 2003: HK\$21 million).

As at 31 March 2004, the total interest bearing bank borrowings of the Group was maintained at HK\$4 million (at 31 March 2003: HK\$8 million) which are repayable within one year.

As at 31 March 2004, the banking facilities granted to the Company's subsidiary subject to corporate guarantees given to banks by the Company were utilised to the extent of approximately HK\$Nil (at 31 March 2003: HK\$13 million).

As at 31 March 2004, contingent liabilities not provided for in the financial statements were bills discounted with recourse amounting to HK\$0.1 million (at 31 March 2003: HK\$ Nil).

Capital structure

As at 31 March 2004, the Group's gearing ratio was 2% (at 31 March 2003: 4%) based on the total interest-bearing bank borrowings of HK\$4 million (at 31 March 2003: HK\$8 million) and net worth of HK\$228 million (at 31 March 2003: 207 million.).

The Group's bank deposit and borrowings were mainly denominated in Hong Kong dollars. Most of Group's sales and purchases were made in United States dollar and Hong Kong dollar. Therefore, the exchange risks exposed to the Group was minimal.

Significant investment

As at 31 March 2004, the Group had convertible notes issued by Wonson International Holdings Limited with carrying amount of HK10.5 million.

As at 31 March 2004, the Group maintained a portfolio of other securities with fair value of HK\$181.2 million. During the year, the Group recorded a realised loss of HK\$1.7 million and an unrealized gain of HK\$29.5 million on other securities respectively.

The interest and dividend income for the convertible notes and other securities for the year ended 31 March 2004 was HK\$1.9 million. The Group would continue to maintain constant review and adequate control on the performances of its portfolio of investment for the year to come.

Details of charges on assets

As at 31 March 2004, a fixed deposit of HK\$7 million (2003: HK\$6 million) and an unlisted investment fund of HK\$4 million (2003: HK\$ 3.9 million) were pledged to secure banking facilities granted to the Group.

Material acquisition and disposals

During the year ended 31 March 2004 under review, there was no material acquisition or disposal of subsidiaries and associates in the Group.

Employment

As at 31 March 2004, the Group had a total of 214 employees of which 25 were based in Hong Kong and 189 were based in the Mainland China. The Group had committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages were maintained at competitive level and reviewed on a periodic basis. Bonus and share options were awarded to certain employees according to the assessment of individual performance and industry practice.

Review for the six months ended 30 September 2004 of the Group

The Group's turnover for the six months ended 30 September 2004 decreased by HK\$3.6 million, or 42% to HK\$4.9 million. The loss from ordinary activities attributable to shareholders for the six months ended 30 September 2004 was HK\$2.6 million, comparing to a net profit of HK\$69.5 million for the six months ended 30 September 2004. The Board did not recommend the payment of any interim dividend in respect of the six months ended 30 September 2004 (2003: nil).

The decrease in the Group's turnover was attributed to the sluggish sales performance of car audio business resulting from an extremely competitive market environment. The net loss for the six months ended 30 September 2004 included an unrealized loss on other securities of HK\$17.2 million and a realized gain on disposal of other securities of HK\$22.8 million.

Car audio business

During the six months ended 30 September 2004, the Group was operating its car audio business in an extremely competitive environment. In the current competitive arena, car audio manufacturers had engaged in destructive price competition for their survivals. Coupled with fierce price pressures, the rising raw material costs resulting from high oil price had further squeezed the product margins. In the midst of price pressures and rising raw material costs, the Group had experienced a sales decline in its car audio business. The sales of car audio products for the six months ended 30 September 2004 decreased by HK\$3.6 million or 42% to HK\$4.9 million. The operating loss for this segment was slightly increased to HK\$5.3 million.

During the six months ended 30 September 2004, the Group continued to implement its cost reduction programs aiming at further reducing the fixed operational costs. The cost reduction included trimming down the production operation and reducing the direct labour workforce. To respond effectively to the intense competition, the Group had placed its efforts on working with the qualified business partners to increase its product outsourcing capacities and broaden products range.

Financial review

The loss from ordinary activities attributable to shareholders for the six months ended 30 September 2004 was HK\$2.6 million, comparing to net profit of HK\$69.5 million for the corresponding period of last year. As at 30 September 2004, the Group's net asset value stood at HK\$225.8 million (at 31 March 2004: HK\$228.4 million). The Group maintained a sound financial position in terms of high assets liquidity and low gearing ratio.

Liquidity and financial resources

During the six months ended 30 September 2004, the Group generally financed its operation with internally generated cash flow and banking facilities. The Group's bank and short-term deposits as at 30 September 2004 amounted to HK\$54.4 million (at 31 March 2004: HK\$25.7 million).

As at 30 September 2004, the total interest-bearing bank borrowings of the Group was HK\$1.1 million (at 31 March 2004: HK\$4.4 million) which were repayable within one year.

As at 30 September 2004, the Group had no contingent liabilities or material commitments for the purchase of property, plant and equipment.

Capital structure

As at 30 September 2004, the Group's gearing ratio was 0.5% (at 31 March 2004: 1.9%) based on total interest-bearing bank borrowings of HK\$1.1 million (at 31 March 2004: HK\$4.4 million) and net worth of HK\$225.8 million (at 31 March 2004: 228.4 million).

The Group's bank deposits and borrowings were mainly denominated in Hong Kong dollars. Most of Group's sales and purchases were made in United States dollars and Hong Kong dollars. Therefore, the exchange risk exposed to the Group was minimal.

Significant investment

As at 30 September 2004, the Group maintained a portfolio of other securities with market value of HK\$158.7 million. The related interest and dividend income for the Period was HK\$3.2 million.

Details of charge on assets

As at 30 September 2004, a fixed deposit of HK\$6.5 million and an unlisted investment fund of HK\$4.0 million were pledged to secure banking facilities granted to the Group.

Material acquisition and disposals

There was no material acquisition and disposal of subsidiaries and associates by the Group during the six months ended 30 September 2004.

Employment

As at 30 September 2004, the Group had a total of 109 employees of which 24 were based in Hong Kong and 85 were based in the Mainland China. The Group had committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages were maintained at competitive level and reviewed on a periodic basis. Bonus and share options were awarded to certain employees according to the assessment of individual performance and industry practice.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



安永會計師事務所

18th Floor
Two International
Finance Centre
8 Finance Street
Central
Hong Kong

10 June 2005

The Board of Directors
139 Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Sociedade De Fomento Predial Fu Wa (Macau) Limitada (“SDFP”) for the years ended 31 December 2002, 2003 and 2004 (the “Relevant Periods”), prepared on the basis as set out in Section 1 below, for inclusion in the circular (the “Circular”) dated 10 June 2005 issued by 139 Holdings Limited (the “Company”), in connection with the acquisition of the entire interest in SDFP by Walterford Company Limited (“Walterford”), an indirectly wholly-owned subsidiary of the Company, pursuant to a sale and purchase agreement (the “Agreement”) dated 2 February 2005 entered into among China Travel Service (Hong Kong) Limited (“China Travel Service”), Findco Enterprises Limited, Walterford and China Travel International Investment Hong Kong Limited (“CTII”) and the Company.

SDFP was incorporated on 19 September 1988 with limited liability under the law of Macau. As at 31 December 2004, SDFP had authorized and issued share capital of MOP200,000 divided into 200,000 ordinary shares of MOP 1 each. During the Relevant Periods, SDFP was principally engaged in property investment holding and hotel operations.

SDFP has adopted 31 December as its financial year end date for reporting purposes. The financial statements of SDFP for the Relevant Periods were prepared by the directors of SDFP in accordance with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. We have audited the financial statements of SDFP for the Relevant Periods in accordance with Statements of Auditing Standards (“SAS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

For the purpose of this report, we have examined the audited financial statements of SDFP for the Relevant Periods in accordance with SAS, and have carried out such additional procedures as we considered necessary in accordance with the auditing guidelines “Prospectus and the Reporting Accountants” issued by the HKICPA.

The summaries of the profits and loss accounts, the statements of changes in equity and the cash flow statements of SDFP for the Relevant Periods and the balance sheets of SDFP as at 31 December 2002, 2003 and 2004 (the “Financial Information”) set out in this report have been prepared and are presented on the basis set out in section 1 below.

The Financial Information are the responsibility of the directors of SDFP who approve their issuance. It is our responsibility to compile the Financial Information together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the results and cash flows of SDFP for the Relevant Periods and of the state of affairs of SDFP as at 31 December 2002, 2003 and 2004.

1. BASIS OF PRESENTATION

The definitions used in the Circular apply to this report unless otherwise stated.

The Financial Information have been prepared on a going concern basis notwithstanding that SDFP recorded net current liabilities of HK\$394,186,000 as at 31 December 2004 because the intermediate holding company of SDFP has agreed to provide continual financial support to SDFP as and when required, provided that SDFP continues to be a subsidiary of the China Travel Service group. Further, the Company has agreed to provide continual financial support to SDFP as and when required, provided that SDFP becomes a subsidiary of the Company.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards (which also includes Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for the periodic remeasurement of hotel property, as further explained below.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset’s recoverable amount is estimated. An asset’s recoverable amount is calculated as the higher of the asset’s value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than hotel property and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than hotel property and investment properties, are dealt with as movements in the fixed assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value, if any. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Furniture, fixtures and equipment	20% – 33 $\frac{1}{3}$ %
Motor vehicles	20%
Carpet, cutlery and crockery, linen and uniforms	Replacement basis

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are stated at estimated open market value less any impairment losses and are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Gain or loss on disposal of an investment property recognised in the profit and loss account is the difference between the net proceeds and the carrying amount of the investment property.

Hotel property

Hotel property is stated at its open market value, based on its existing use, on the basis of annual professional valuation. Movements in the value of the hotel property are dealt with in the hotel property revaluation reserve, on an individual basis, unless the reserve is exhausted, in which case the deficit is charged to the profit and loss account as incurred. Any surplus arising on revaluation of hotel property is credited to the hotel property revaluation reserve, except to the extent that it reverses a revaluation deficit of the same hotel property previously recognised as an expense, in which case this surplus is first credited to the profit and loss account to the extent of the deficit previously charged.

It is SDFP's policy to maintain the hotel property in such condition that its residual value is not currently diminished by the passage of time. The related repair and maintenance expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the directors of SDFP consider that depreciation is not necessary for the hotel property.

Upon the disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Long term investment

Long term investment is non-trading investment in unlisted equity investment intended to be held on a long term basis.

Unlisted investment is stated at its estimated fair values, on an individual basis. The estimated fair values of unlisted investment are determined by the directors with reference to the fair values of the underlying assets and liabilities of such investment.

Gains or losses arising from changes in the fair values of an investment are dealt with as movements in the long term investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired, when the cumulative gain or loss derived from the investment recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or, in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

A deferred tax asset is also recognised for the carryforward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the carryforward of the unused tax losses can be utilised.

The carrying amount of deferred tax assets is revised 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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Revenue recognition

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

- (a) from the rendering of services, when the services are rendered; and
- (b) rental income, on a time proportion basis over the lease terms.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where SDFP is the lessor, assets leased by SDFP under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where SDFP is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

Employee benefits

Paid leave carried forward

SDFP provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits schemes

SDFP operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) for those employees in Hong Kong who are eligible to participate in the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of SDFP in an independently administered fund. SDFP’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

Under the terms of the share option scheme of CTII, adopted on 3 June 2002 (the “Scheme”), the board of directors of CTII may at their discretion, grant options to directors or employees of CTII or any of its subsidiaries, including SDFP, to subscribe for shares in CTII. The Scheme will remain in force for a period of ten years from the date of its adoption. No share options have been granted under the Scheme to the directors or employees of SDFP since its adoption.

Related parties

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

Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of SDFP’s cash management.

For the purpose of the balance sheet, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

3. RESULTS

The following is a summary of the profit and loss accounts of SDFP for the Relevant Periods prepared on the basis set out in section 1 above:

	<i>Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	(a)	52,582	49,887	64,886
Cost of sales		<u>(26,297)</u>	<u>(22,363)</u>	<u>(24,834)</u>
Gross profit		26,285	27,524	40,052
Other revenue and gains	(a)	74	190	127
Administrative expenses		<u>(17,199)</u>	<u>(16,731)</u>	<u>(16,300)</u>
PROFIT BEFORE TAX	(c)	9,160	10,983	23,879
Tax	(e)	<u>(1,376)</u>	<u>(1,558)</u>	<u>(3,764)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>7,784</u>	<u>9,425</u>	<u>20,115</u>
Dividends	(f)	<u>—</u>	<u>—</u>	<u>—</u>

Notes:

(a) Turnover, other revenue and gains

Turnover represents the net invoiced value of room sales and sales of food and beverages, after allowances for trade discounts during the Relevant Periods.

An analysis of turnover, other revenue and gains is as follows:

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Turnover			
Room sales	34,402	34,590	48,743
Sales of food and beverages	15,968	14,406	14,877
Other ancillary	2,212	891	1,266
	<u>52,582</u>	<u>49,887</u>	<u>64,886</u>
Other revenue			
Gross rental income	62	76	75
Sundry income	12	59	52
	<u>74</u>	<u>135</u>	<u>127</u>
Gains			
Gain on disposal of fixed assets	—	55	—
Other revenue and gains	<u>74</u>	<u>190</u>	<u>127</u>

(b) Segment reporting

No business and geographical segments is presented as all revenue and assets of SDFP are related to its hotel operations in Macau for the Relevant Periods.

(c) Profit before tax

Profit before tax is arrived at after charging/(crediting):

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold and services provided	23,152	20,654	20,635
Auditors' remuneration	150	150	150
Depreciation	856	478	498
Staff costs:			
Wages and salaries	22,404	19,781	21,731
Retirement benefit contributions	18	16	18
Total staff costs*	<u>22,422</u>	<u>19,797</u>	<u>21,749</u>
Minimum lease payments under operating leases in respect of land and buildings	96	48	32
Exchange gain, net	(8)	—	—
Gain on disposal of fixed assets, net	—	(55)	—
Bad debts	<u>—</u>	<u>—</u>	<u>410</u>

- * The “cost of sales” on the face of profit and loss account for the Relevant Periods includes staff cost of HK\$16,640,000, HK\$13,857,000 and HK\$16,209,000 for the years ended 31 December 2002, 2003 and 2004, respectively.

(d) Director’s and senior executives’ remuneration

Directors’ remuneration for the Relevant Periods is as follows:

	Year ended 31 December		
	2002 HK\$’000	2003 HK\$’000	2004 HK\$’000
Fee	—	—	—
Basic salaries, allowances and benefits in kind	706	753	696
	<u>706</u>	<u>753</u>	<u>696</u>

All the directors’ remuneration during the Relevant Period fell within the band of nil to HK\$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

The five highest paid employees during the Relevant Periods included two directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December		
	2002 HK\$’000	2003 HK\$’000	2004 HK\$’000
Wages and salaries	633	714	1,362
Retirement benefit contributions	2	2	6
	<u>635</u>	<u>716</u>	<u>1,368</u>

The remuneration of the three non-director, highest paid employees during the Relevant Periods all fell within the band of nil to HK\$1,000,000.

(e) Tax

No provision for Hong Kong profits tax has been made as SDFP did not generate any assessable profits arising in Hong Kong during the Relevant Periods. Macau profits tax has been provided at the rate of 15.75% on the estimated assessable profits arising in Macau during the Relevant Periods.

	Year ended 31 December		
	2002 HK\$’000	2003 HK\$’000	2004 HK\$’000
Provision for the year	—	—	2,340
Deferred tax (<i>Section 4(g)</i>)	1,376	1,558	1,424
	<u>1,376</u>	<u>1,558</u>	<u>3,764</u>

A reconciliation of tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Profit before tax	<u>9,160</u>	<u>10,983</u>	<u>23,879</u>
Tax at the statutory tax rate of 15.75%	1,443	1,729	3,761
Others	<u>(67)</u>	<u>(171)</u>	<u>3</u>
Tax charge for the year	<u>1,376</u>	<u>1,558</u>	<u>3,764</u>

(f) Dividends

No dividend had been paid or declared by SDFP during the Relevant Periods.

(g) Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

4. BALANCE SHEETS

The following is a summary of balance sheets of SDFP as at 31 December 2002, 2003 and 2004 prepared on the basis set out in section 1 above:

		As at 31 December		
		2002	2003	2004
	Notes	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Fixed assets	(a)	503,675	469,752	503,761
Long term investment	(b)	10	10	10
		<u>503,685</u>	<u>469,762</u>	<u>503,771</u>
CURRENT ASSETS				
Inventories	(c)	828	780	970
Trade receivables	(d)	7,295	5,773	5,853
Prepayments, deposits and other receivables		779	584	1,301
Due from ultimate holding company	(e)	23	—	—
Due from fellow subsidiaries	(e)	532	470	9
Cash and bank balances		16,628	16,916	28,617
		<u>26,085</u>	<u>24,523</u>	<u>36,750</u>
CURRENT LIABILITIES				
Trade payables	(f)	3,559	3,507	2,511
Tax payables		—	—	2,340
Accrued liabilities, deposits and other payables		4,820	5,595	6,038
Due to immediate holding company	(e)	444,328	431,137	420,047
		<u>452,707</u>	<u>440,239</u>	<u>430,936</u>
NET CURRENT LIABILITIES		<u>(426,622)</u>	<u>(415,716)</u>	<u>(394,186)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
		77,063	54,046	109,585
NON-CURRENT LIABILITIES				
Deferred tax liabilities	(g)	46,109	42,312	49,091
		<u>30,954</u>	<u>11,734</u>	<u>60,494</u>
CAPITAL AND RESERVES				
Issued capital	(h)	194	194	194
Reserves		30,760	11,540	60,300
		<u>30,954</u>	<u>11,734</u>	<u>60,494</u>

APPENDIX II
FINANCIAL INFORMATION OF SDFP

Notes:

(a) Fixed assets

	Hotel property HK\$'000	Investment properties HK\$'000	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Carpet, cutlery and crockery, linen and uniforms HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2002	453,597	–	14,030	28,198	1,792	11,276	508,893
Additions	–	–	–	83	–	–	83
Disposals	(4)	–	–	(22)	–	–	(26)
Reclassification	–	4,121	(4,121)	–	–	–	–
Surplus on revaluation	25,000	–	–	–	–	–	25,000
At 31 December 2002 and 1 January 2003	478,593	4,121	9,909	28,259	1,792	11,276	533,950
Additions	54	–	–	154	347	–	555
Disposals	–	–	–	(86)	(317)	–	(403)
Deficit on revaluation	(34,000)	–	–	–	–	–	(34,000)
At 31 December 2003 and 1 January 2004	444,647	4,121	9,909	28,327	1,822	11,276	500,102
Additions	74	–	–	434	–	–	508
Write off	–	–	–	(157)	–	–	(157)
Surplus on revaluation	34,000	–	–	–	–	–	34,000
At 31 December 2004	478,721	4,121	9,909	28,604	1,822	11,276	534,453
At cost 2002	–	–	–	28,259	1,792	11,276	41,327
At 2001 valuation	–	4,121	9,909	–	–	–	14,030
At 2002 valuation	478,593	–	–	–	–	–	478,593
	478,593	4,121	9,909	28,259	1,792	11,276	533,950
At cost 2003	–	–	–	28,327	1,822	11,276	41,425
At 2001 valuation	–	4,121	9,909	–	–	–	14,030
At 2003 valuation	444,647	–	–	–	–	–	444,647
	444,647	4,121	9,909	28,327	1,822	11,276	500,102
At cost 2004	–	–	–	28,604	1,822	11,276	41,702
At 2001 valuation	–	4,121	9,909	–	–	–	14,030
At 2004 valuation	478,721	–	–	–	–	–	478,721
	478,721	4,121	9,909	28,604	1,822	11,276	534,453
Accumulated depreciation:							
At 1 January 2002	–	–	–	27,649	1,792	–	29,441
Provided during the year	–	317	323	216	–	–	856
Disposals	–	–	–	(22)	–	–	(22)
At 31 December 2002 and 1 January 2003	–	317	323	27,843	1,792	–	30,275
Provided during the year	–	–	215	211	52	–	478
Disposals	–	–	–	(86)	(317)	–	(403)
At 31 December 2003 and 1 January 2004	–	317	538	27,968	1,527	–	30,350
Provided during the year	–	–	215	214	69	–	498
Write off	–	–	–	(156)	–	–	(156)
At 31 December 2004	–	317	753	28,026	1,596	–	30,692
Net book value:							
At 31 December 2004	478,721	3,804	9,156	578	226	11,276	503,761
At 31 December 2003	444,647	3,804	9,371	359	295	11,276	469,752
At 31 December 2002	478,593	3,804	9,586	416	–	11,276	503,675

The hotel property, investment properties and land and buildings are situated in Macau and held under medium term leases.

The hotel property was carried at valuation, based on open market value, existing use basis as at 31 December 2002, 2003 and 2004, with reference to the revaluation performed as at the respective balance sheet dates by RHL Appraisal Ltd ("RHL"), an independent firm of professional valuers.

The land and buildings as at 31 December 2002, 2003 and 2004 were carried at valuation as of 31 December 2001 based on open market value, existing use basis performed by RHL. No professional revaluations of these land and buildings have been carried out since 1 January 2002 and the directors of SDFP considered that the market values of these land and buildings were not significantly different from their carrying amounts at 31 December 2002, 2003 and 2004.

The investment properties at 31 December 2002, 2003 and 2004 were carried at open market values estimated by the directors of SDFP. The directors of SDFP considered that the estimated open market values of these investment properties as at the respective balance sheet dates were not significantly different from the professional valuation performed by RHL on 31 December 2001, based on open market value, existing use basis.

SDFP's investment properties are leased to third parties under operating leases.

(b) Long term investment

	As at 31 December		
	2002	2003	2004
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Unlisted equity investments	<u>10</u>	<u>10</u>	<u>10</u>

(c) Inventories, at cost

	As at 31 December		
	2002	2003	2004
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Raw materials	475	483	596
General stores	<u>353</u>	<u>297</u>	<u>374</u>
	<u>828</u>	<u>780</u>	<u>970</u>

No inventories at the respective balance sheet dates were carried at net realisable value.

(d) Trade receivables

SDFP's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to two months. Each customer has a maximum credit limit. SDFP seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet dates, based on invoice date and net of provisions, is as follows:

	As at 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with age:			
Less than 30 days	2,942	3,354	3,616
Within 31 – 60 days	2,692	1,905	2,175
Within 61 – 90 days	992	514	62
Over 90 days	669	—	—
	<u>7,295</u>	<u>5,773</u>	<u>5,853</u>

(e) Due from/to holding companies and fellow subsidiaries

The balances with the holding companies and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(f) Trade payables

An aged analysis of the trade payables as at the balance sheet dates, based on invoice date, is as follows:

	As at 31 December		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with age:			
Less than 30 days	2,569	2,116	1,444
Within 31 – 60 days	990	1,368	1,002
Over 60 days	—	23	65
	<u>3,559</u>	<u>3,507</u>	<u>2,511</u>

(g) Deferred tax

	Accelerated tax depreciation <i>HK\$ '000</i>	Surplus/ (deficit) on revaluation of hotel properties <i>HK\$ '000</i>	Loss available for offset against future taxable profit <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 January 2002	28,003	13,518	(726)	40,795
Deferred tax charged/ (credited) to the profit and loss account during the year	1,388	—	(12)	1,376
Deferred tax debited to hotel property revaluation reserve during the year	—	3,938	—	3,938
At 31 December 2002 and 1 January 2003	29,391	17,456	(738)	46,109
Deferred tax charged to the profit and loss account during the year	1,382	—	176	1,558
Deferred tax credited to hotel property revaluation reserve during the year	—	(5,355)	—	(5,355)
At 31 December 2003 1 January 2004	30,773	12,101	(562)	42,312
Deferred tax charged to the profit and loss account during the year	862	—	562	1,424
Deferred tax debited to hotel property revaluation reserve during the year	—	5,355	—	5,355
At 31 December 2004	<u>31,635</u>	<u>17,456</u>	<u>—</u>	<u>49,091</u>

(h) Share capital

	As at 31 December		
	2002 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>	2004 <i>HK\$ '000</i>
Authorised, issued and fully paid: 200,000 shares of MOP1 each	<u>194</u>	<u>194</u>	<u>194</u>

5. STATEMENTS OF CHANGES IN EQUITY

The statements of changes in equity of SDFP for the Relevant Periods, prepared on the basis set out in section 1 above are as follows:

	Issued share capital <i>HK\$'000</i>	Hotel property revaluation reserve <i>HK\$'000</i>	Fixed assets revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	194	71,269	1,042	(70,397)	2,108
Net profit for the year	–	–	–	7,784	7,784
Revaluation surplus (<i>Section 4(a)</i>)	–	25,000	–	–	25,000
Effect of deferred tax (<i>Section 4(g)</i>)	–	(3,938)	–	–	(3,938)
At 31 December 2002 and 1 January 2003	194	92,331*	1,042*	(62,613)*	30,954
Net profit for the year	–	–	–	9,425	9,425
Revaluation deficit (<i>Section 4(a)</i>)	–	(34,000)	–	–	(34,000)
Effect of deferred tax (<i>Section 4(g)</i>)	–	5,355	–	–	5,355
At 31 December 2003 and 1 January 2004	194	63,686*	1,042*	(53,188)*	11,734
Net profit for the year	–	–	–	20,115	20,115
Revaluation surplus (<i>Section 4(a)</i>)	–	34,000	–	–	34,000
Effect of deferred tax (<i>Section 4(g)</i>)	–	(5,355)	–	–	(5,355)
At 31 December 2004	194	92,331*	1,042*	(33,073)*	60,494

* These reserve accounts comprise the reserves of HK\$30,760,000, HK\$11,540,000 and HK\$60,300,000 as at 31 December 2002, 2003 and 2004, respectively, in the balance sheets.

The fixed assets revaluation reserve included revaluation surplus of HK\$935,000 attributable to the properties which were reclassified from land and buildings to investment properties as at 31 December 2002. This portion of revaluation reserve is not available to offset against deficit arising from the revaluation of the investment properties subsequent to their reclassification, and can only be transferred to accumulated losses as a movement in reserves upon the disposal of the relevant investment properties.

6. CASH FLOW STATEMENTS

The following is a summary of cash flow statements of SDFP for the Relevant Periods on the basis set out in section 1 above:

	Year ended 31 December		
	2002	2003	2004
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	9,160	10,983	23,879
Adjustments for:			
Depreciation	856	478	498
Gain on disposal of fixed assets, net	—	(55)	—
Bad debts	—	—	410
Fixed assets written off	—	—	1
Operating profit before working capital changes	10,016	11,406	24,788
Decrease/(increase) in inventories	134	48	(190)
Decrease/(increase) in trade receivables	1,125	1,522	(490)
Decrease/(increase) in prepayments, deposits and other receivables	(264)	195	(717)
Decrease/(increase) in amount due from ultimate holding company	(23)	23	—
Decrease in amounts due from fellow subsidiaries	637	62	461
Decrease in trade payables	(301)	(52)	(996)
Increase in accrued liabilities, deposits and other payables	1,108	775	443
Increase/(decrease) in amount due to immediate holding company	(2,182)	(191)	910
Net cash inflow from operating activities	10,250	13,788	24,209
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	(83)	(555)	(508)
Proceeds from disposal of fixed assets	4	55	—
Net cash outflow from investing activities	(79)	(500)	(508)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of advances from immediate holding company	—	(13,000)	(12,000)
Cash outflow from financing activities	—	(13,000)	(12,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,171	288	11,701
Cash and cash equivalents at beginning of year	6,457	16,628	16,916
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>16,628</u>	<u>16,916</u>	<u>28,617</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<u>16,628</u>	<u>16,916</u>	<u>28,617</u>

7. OPERATING LEASE ARRANGEMENTS

SDFP leased certain of its office premises under operating lease arrangements. Leases are negotiated for terms of 1 to 2 years.

At the balance sheet dates, SDFP had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Within one year	48	8	14
In the second to fifth years, inclusive	12	—	—
	<u>60</u>	<u>8</u>	<u>14</u>

8. COMMITMENTS

In addition to the operating lease commitments detailed in section 7 above, SDFP had the following capital commitments at the balance sheet dates:

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for:			
Hotel renovation	—	—	1,154
Motor vehicles	—	—	469
Furniture, fixtures and equipment	—	—	133
	<u>—</u>	<u>—</u>	<u>1,756</u>

9. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in this report, SDFP had the following material transactions with related parties during the Relevant Periods:

	<i>Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rooms sales and food and beverages income from China Travel Service	(i)	10,018	9,992	13,772
Rooms sales and food and beverages income from Grand Tour and Travel Service Company Limited, a fellow subsidiary of SDFP	(i)	5	17	74
Rental income from Macau CTS Passenger Road Transport Company Limited, a related company, for staff dormitory	(ii)	—	—	15
Rooms sales and food and beverages income from CTS (HK & Macau Tour) Limited, a fellow subsidiary of SDFP	(i)	2,085	37	—
Rooms sales and food and beverages income from China Travel International Investment (HK) Limited, a fellow subsidiary of SDFP	(i)	25	—	—
Rooms sales and food and beverages income from CTS International Travel Limited, a fellow subsidiary of SDFP	(i)	139	3	—
Rental expense paid to China Travel Building Contractors HK Limited, a fellow subsidiary of SDFP	(iii)	<u>(48)</u>	<u>(16)</u>	<u>—</u>

Notes:

- (i) In the opinion of the directors of SDFP, rooms sales and food and beverages income from China Travel Service and the fellow subsidiaries of SDFP were made according to the published prices and conditions offered to other customers of SDFP.
- (ii) In the opinion of the directors of SDFP, the rental income was determined with reference to the market value as considered appropriate by the directors of SDFP.
- (iii) In the opinion of the directors of SDFP, the rental expenses was determined with reference to the market value as considered appropriate by the directors of SDFP.

10. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, no significant events took place subsequent to 31 December 2004.

11. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by SDFP in respect of any period subsequent to 31 December 2004.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



安永會計師事務所

18th Floor
Two International
Finance Centre
8 Finance Street
Central
Hong Kong

10 June 2005

The Board of Directors
139 Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the “unaudited pro forma financial information”) of the Enlarged Group, (being the Group (as defined herein) together with Sociedade De Fomento Predial Fu Wa (Macau) Limitada (“SDFP”)) set out on pages 123 to 136 in Appendix III to the circular (the “Circular”) dated 10 June 2005 issued by 139 Holdings Limited (the “Company”, and together with its subsidiaries are referred to as the “Group”), solely for illustrative purposes to provide information about how the proposed acquisition of the entire equity interest in SDFP by the Company as described in the accompanying introduction to the unaudited pro forma financial information of the Enlarged Group might have affected the historical financial information in respect of the Group.

The historical financial information is derived from the audited historical financial information of the Group as set out on pages 40 to 80 and the audited historical financial information of SDFP as set out on pages 102 to 122. The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 13 of Appendix 1B and paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the listing rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on directors’ judgments and assumptions and, because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

- the Enlarged Group had the transactions actually occurred as at the dates indicated therein; or
- the Enlarged Group at any future dates or for any future periods.

OPINION

In our opinion:

- (a) the accompanying unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as set out on pages 126 to 135 pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

I. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on:

- (1) the audited consolidated balance sheet of the Group as at 31 March 2004, as set out in the annual report of the Company dated 21 July 2004; and
- (2) the audited balance sheet of SDFP as at 31 December 2004, as set out in Appendix II to this circular.

As it is prepared for illustrative purpose assuming the Completion took place as at the balance sheet date on 31 March 2004 and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which is made up to or at any future dates.

	The Group As at 31 March 2004 HK\$'000	SDFP As at 31 December 2004 HK\$'000		Pro forma adjustments HK\$'000	Note		Pro forma consolidation adjustments HK\$'000		Pro forma consolidated Enlarged Group HK\$'000
			Notes					Notes	
Non-current assets									
Fixed assets	8,263	503,761					33,023	5	545,047
Investment in a subsidiary	–	–	82,716	1			(82,716)	5,7	–
Long term investment	–	10							10
Negative goodwill	–	–					(5,600)	5,7	(5,600)
	<u>8,263</u>	<u>503,771</u>							<u>539,457</u>
Current assets									
Other securities	181,298	–				(74,713)	3		106,585
Convertible notes	10,500	–							10,500
Inventories	4,395	970							5,365
Trade receivables	728	5,853							6,581
Prepayments, deposits and other receivables	5,165	1,301							6,466
Pledged time deposits	6,534	–							6,534
Due from SDFP	–	–	420,047	6			(420,047)	5	–
Due from China Travel Service group companies	–	9							9
Cash and cash equivalents	25,650	28,617	(162,763)	4	62,400	2	74,713	3	28,617
	<u>234,270</u>	<u>36,750</u>							<u>170,657</u>
Current liabilities									
Trade and bills payables	(1,683)	(2,511)							(4,194)
Tax payable	(363)	(2,340)							(2,703)
Other payables and accruals	(7,734)	(6,038)							(13,772)
Other loan, unsecured	–	–	(30,000)	4					(30,000)
Due to China Travel Service	–	(420,047)	420,047	1,6					–
Due to the Company	–	–	(420,047)	6			420,047	5	–
Bank overdrafts, secured	(4,368)	–							(4,368)
	<u>(14,148)</u>	<u>(430,936)</u>							<u>(55,037)</u>

APPENDIX III PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group As at 31 March 2004 HK\$'000	SDFP As at 31 December 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustments HK\$'000	Notes	Pro forma consolidated Enlarged Group HK\$'000
Net current assets/(liabilities)	220,122	(394,186)					115,620
Total assets less current liabilities	228,385	109,585					655,077
Non current liabilities							
Convertible notes	-	-	(250,000)	1			(250,000)
Other loan, unsecured	-	-	(60,000)	4			(60,000)
Deferred tax liabilities	-	(49,091)			(5,201)	5	(54,292)
	-	(49,091)					(364,292)
	228,385	60,494					290,785
Shareholders' equity	228,385	60,494	62,400	2	(60,494)	5	290,785

Notes:

- The adjustments represent the payment of total consideration of HK\$500,000,000 by the Group to acquire the entire interest in SDFP and the Shareholder's Loan of HK\$420,047,000 together with the related transaction cost incurred of HK\$2,763,000. The consideration will be settled by cash of HK\$250,000,000 and issue of Convertible Notes by the Company of HK\$250,000,000. The breakdowns of the related transaction cost incurred of HK\$2,763,000 are as follow:

<i>Estimated expense</i>	<i>HK\$</i>
Audit and financial advisory	650,000
HK and Macau lawyers	580,000
Property valuation and others	133,000
Stamp duty and registration cost	1,400,000
Estimated total	<u>2,763,000</u>

- The adjustment represents the net proceeds of HK\$62,400,000 received from the completion of placing 2,000,000,000 new Shares in March 2005 under the Fully Underwritten Placing Agreement as disclosed in the circular issued by the Company dated 16 February 2005 to finance the Proposed Acquisition.
- The adjustment represents the proceeds of HK\$74,713,000 from disposal of other securities assuming that other securities were disposed of at their carrying values at 31 March 2004 to finance the Proposed Acquisition. These amount represents the balance of the cash resource to be derived from liquidation of the Group's other securities after taking into account Note 4 (1), Note 2 and cash reserve of the Group at 31 March 2004 to satisfy the cash consideration of HK\$250,000,000 for the Proposed Acquisition and the estimated transaction cost of HK\$2,763,000.
- The adjustments represent the net amount of:
 - unsecured loans of HK\$90,000,000, in aggregate, obtained from independent third parties which included other loans of HK\$30,000,000 and HK\$60,000,000 obtained in May 2005 by the Group to finance the Proposed Acquisition. The loans are unsecured, bear interest at Hong Kong dollar prime rate per annum plus 3.5% and 5% and, are repayable on or before 11 February 2006 and 31 July 2006, respectively; and

- (2) the payment of cash consideration of HK\$250,000,000 according to SP Agreement for the Proposed Acquisition and estimated transaction cost of HK\$2,763,000 in connection with the Proposed Acquisition.
5. The consolidation adjustments represent (i) the elimination of the Group's interests in SDFP on pro forma consolidation; (ii) elimination of intra-group balances; (iii) the restatement of the estimated difference of HK\$33,023,000 between the net book value of SDFP's hotel property, leasehold land and buildings and investment properties at 31 December 2004 of HK\$502,957,000 in aggregate as set out in the accountant's report in Appendix II of this circular and their fair values of HK\$535,980,000 in aggregate based on the valuation performed by RHL Appraisal Ltd ("RHL") as at 31 March 2005 as set out in Appendix V of this circular; (iv) the recognition of estimated deferred tax liabilities of HK\$5,201,000 as a result of the adjustment arising from the Proposed Acquisition; and (v) the recognition of estimated negative goodwill of approximately HK\$5,600,000 arising from the Proposed Acquisition (see Note 7 below).
6. Pursuant to the SP Agreement, China Travel Service sells its amount receivable from SDFP of HK\$420,047,000 to the Company upon Completion.
7. Under the accounting principles generally accepted in Hong Kong, the Group applied the purchase method to account for the acquisition of the entire issued share capital of SDFP.

In applying the purchase method, the identifiable assets and liabilities of SDFP would be recorded in the unaudited pro forma consolidated balance sheet of the Enlarged Group at their fair values at the date of Completion of the Proposed Acquisition, and all the capital and reserves of SDFP upon Completion will be eliminated as pre-acquisition reserves of the Enlarged Group. The difference between the Group's interests in the net fair value of the identifiable assets and liabilities of SDFP over the purchase consideration deemed to be incurred by the Group at the date of Completion would be accounted for as negative goodwill.

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

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the unaudited pro forma consolidated profit and loss account when the future losses and expenses are recognised.

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

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the unaudited pro forma consolidated profit and loss account and any relevant reserves as appropriate.

For the purpose of preparing the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Completion, the net fair value of the identifiable assets and liabilities of SDFP, as extracted from the accountants' report as set out in Appendix II of this circular with its hotel property, leasehold land and buildings and investment properties as further restated to their fair value on 31 March 2005 (the "Fair Value") based on the valuation performed by RHL as set out in Appendix V of this Circular, is applied in the calculation for the estimated negative goodwill arising from the Proposed Acquisition. Since the fair value of the assets and liabilities of SDFP at the date of Completion may be substantially different from their Fair Value, the actual goodwill arising from the acquisition of SDFP of the Enlarged Group may be different from the estimated negative goodwill as shown above.

**II. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE
ENLARGED GROUP**

The unaudited pro forma consolidated profit and loss account of the Enlarged Group has been prepared based on:

- (1) the audited consolidated profit and loss account of the Group for the year ended 31 March 2004, as set out in the annual report of the Company dated 21 July 2004; and
- (2) the audited profit and loss account of SDFP for the year ended 31 December 2004, as set out in Appendix II to this circular.

As it is prepared for illustrative purpose assuming the Completion took place at the beginning of the period on 1 April 2003 and because of its nature, it may not give a true picture of the results of the Enlarged Group for the financial period in respect of which it is made up or for any future financial periods.

APPENDIX III PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group For the year ended 31 March 2004 HK\$'000	SDFP For the year ended 31 December 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustment HK\$'000	Notes	Pro forma consolidated Enlarged Group HK\$'000
Turnover	15,410	64,886					80,296
Cost of sales	(20,527)	(24,834)					(45,361)
Gross profit	(5,117)	40,052					34,935
Other revenue	1,995	127					2,122
Negative goodwill recognised as income	–	–			187	1	187
Selling and distribution costs	(684)	–					(684)
Administrative expenses	(17,681)	(16,300)	(2,273)	2			(36,254)
Other operating expenses	(4,871)	–					(4,871)
Loss on disposal of other securities	(1,761)	–					(1,761)
Unrealised gain on other securities	29,597	–					29,597
Profit from operating activities	1,478	23,879					23,271
Finance costs	(274)	–	(17,975)	3			(18,249)
Profit before tax	1,204	23,879					5,022
Tax	–	(3,764)					(3,764)
Net profit attributable to shareholders	<u>1,204</u>	<u>20,115</u>					<u>1,258</u>

Notes:

1. The adjustment represents the amortisation amount of negative goodwill recognised as income arising from the acquisition of SDFP for the period. For illustrative purposes, the estimated negative goodwill of approximately HK\$5,600,000 is amortised over 30 years on a straight-line basis.
2. The adjustment represents hotel management fee incurred for the period in accordance with the memorandum of key commercial terms for the Management Agreement.
3. The adjustment represents interests on unsecured other loans of HK\$90,000,000 in aggregate and the Convertible Notes of HK\$250,000,000.

III. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma consolidated cash flow statement of the Enlarged Group has been prepared based on:

- (1) the audited consolidated cash flow statement of the Group for the year ended 31 March 2004, as set out in the annual report of the Company dated 21 July 2004; and
- (2) the audited cash flow statement of SDFP for the year ended 31 December 2004, as set out in Appendix II to this circular.

As it is prepared for illustrative purpose assuming the Completion took place at the beginning of the period on 1 April 2003 and because of its nature, it may not give a true picture of the cash flow of the Enlarged Group for the financial period in respect of which it is made up or for any future financial periods.

	The Group For the year ended 31 March 2004 HK\$'000	SDFP For the year ended 31 December 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustment HK\$'000	Note	Pro forma consolidated Enlarged Group HK\$'000
Cash flows from operating activities							
Profit before tax	1,204	23,879	(20,248)	6,7	187	9	5,022
Adjustments for:							
Depreciation	4,631	498					5,129
Interest income	(921)	–					(921)
Finance costs	274	–	17,975	6			18,249
Loss on disposal of fixed assets	15	–					15
Impairment of goodwill	4,413	–					4,413
Negative goodwill recognised as income	–	–			(187)	9	(187)
Bad debts written off	–	410					410
Loss on disposal of other securities	1,761	–					1,761
Unrealised loss on other securities	(29,597)	–					(29,597)
Fixed assets written off	–	1					1
Operating profit/(loss) before working capital changes	(18,220)	24,788					4,295
Increase in inventories	(801)	(190)					(991)
Increase in trade receivables	(147)	(490)					(637)

APPENDIX III PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group For the year ended 31 March 2004 HK\$'000	SDFP For the year ended 31 December 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustment HK\$'000	Note	Pro forma consolidated Enlarged Group HK\$'000
Increase in prepayments, deposits and other receivables	(2,012)	(717)					(2,729)
Decrease in amounts due from China Travel Service group companies	–	461					461
Decrease in trade and bill payables	(1,067)	(996)					(2,063)
Increase in other payables and accruals	405	443					848
Increase in amount due to China Travel Service	–	910					910
Cash generated from/(used in) operations	(21,842)	24,209					94
Interest paid	(274)	–	(17,975)	7			(18,249)
Net cash inflow/(outflow) from operating activities	(22,116)	24,209					(18,155)
Cash flows from investing activities							
Acquisition of entire interests in SDFP	–	–	(252,763)	3,4			(252,763)
Purchases of fixed assets	(208)	(508)					(716)
Proceeds from disposal of fixed assets	2	–					2
Proceeds from disposal of other securities	98,475	–	74,713	2			173,188
Purchases of other securities	(85,331)	–					(85,331)
Interest received	1,799	–					1,799
Net cash inflow/(outflow) from investing activities	14,737	(508)					(163,821)
Cash flow from financing activities							
Repayment of advances from China Travel Service	–	(12,000)					(12,000)
Drawdown of other loans	–	–	90,000	5			90,000
Proceeds from issue of shares	15,331	–	64,000	1			79,331
Share issue expenses	–	–	(1,600)	1			(1,600)
Net cash inflow/(outflow) from financing activities	15,331	(12,000)					155,731

APPENDIX III PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

	The Group For the year ended 31 March 2004 HK\$'000	SDFP For the year ended 31 December 2004 HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma consolidation adjustment HK\$'000	Note	Pro forma consolidated Enlarged Group HK\$'000
Net increase/(decrease) in cash and cash equivalents	7,952	11,701					(26,245)
Cash and cash equivalents at the beginning of the year	19,864	16,916					36,780
Cash and cash equivalents at the end of the year	<u>27,816</u>	<u>28,617</u>					<u>10,535</u>
Analysis of balances of cash and cash equivalents							
Cash and bank balances	20,214	28,617	(40,462)	8			8,369
Non-pledged time deposits with original maturity of less than three months when acquired	5,436	–	(5,436)	8			–
Time deposits with original maturity of less than three months when acquired, pledged as security for bank facilities	6,534	–					6,534
Bank overdrafts	(4,368)	–					(4,368)
	<u>27,816</u>	<u>28,617</u>					<u>10,535</u>

Notes:

The adjustments represent:

- the net proceeds of HK\$62,400,000 received from the completion of placing 2,000,000,000 new Shares in March 2005 under the Fully Underwritten Placing Agreement as disclosed in the circular issued by the Company dated 16 February 2005 after deduction of Share issue expenses of HK\$1,600,000;
- the proceeds of HK\$74,713,000 from the disposal of other securities;
- the payment of cash consideration of HK\$250,000,000 according to SP Agreement for the Proposed Acquisition;
- the estimated expenses of HK\$2,763,000 paid in connection with the Proposed Acquisition;
- other loans of HK\$90,000,000 in aggregate obtained by the Group in May 2005;
- interests of HK\$17,975,000 on unsecured other loans of HK\$90,000,000 in aggregate and the Convertible Notes of HK\$250 million;
- hotel management fee of HK\$2,273,000 incurred in accordance with the memorandum of key commercial terms for the Management Agreement;
- the combined cash flow effect of 1 to 7 above; and
- the amortisation amount of negative goodwill recognised as income for the period.

IV. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP BEFORE AND AFTER COMPLETION

The financial information set out in part (a) below is based on the audited consolidated net tangible assets of the Group as at 31 March 2004, as set out in the annual report of the Company dated 21 July 2004 and included placing of 2,000,000,000 new Shares under the Fully Underwritten Placing Agreement which was completed in March 2005.

The financial information set out in part (b) below is based on the unaudited pro forma consolidated net assets of the Enlarged Group as set out in Section 1 of this Appendix and included placing of 2,000,000,000 new Shares under the Fully Underwritten Placing Agreement which was completed in March 2005 assuming no conversion of Convertible Notes.

The financial information set out in part (c) below is based on the unaudited pro forma consolidated net assets of the Enlarged Group as set out in Section 1 of this Appendix and included placing of 2,000,000,000 new Shares under the Fully Written Agreement which was completed in March 2005 assuming full conversion of Convertible Notes.

As it is prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which is made up to or at any future dates.

(a) before the Completion and included placing of 2,000,000,000 new Shares under the Fully Underwritten Placing Agreement

Audited consolidated net tangible assets of the Group as at 31 March 2004 HK\$'000	Add: Net proceeds from the Fully Underwritten Placing Agreement HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to each Share (Note 1)
228,385	62,400	290,785	HK\$0.0257

(b) after the Completion (including SDFP) and included placing of 2,000,000,000 new Shares under the Fully Underwritten Agreement assuming no conversion of Convertible Notes

Unaudited pro forma adjusted consolidated net assets of the Enlarged Group HK\$'000 (Note 2)	Add: Negative goodwill HK\$'000 (Note 3)	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group attributable to each Share (Note 1)
290,785	5,600	296,385	HK\$0.0262

(c) after the Completion (including SDFP) and included placing of 2,000,000,000 new Shares under the Fully Underwritten Agreement assuming full conversion of the Convertible Notes

			Unaudited pro forma adjusted	Unaudited pro forma adjusted	Unaudited pro forma adjusted
		Add:	pro forma	consolidated	consolidated
Unaudited		Assuming	adjusted	net tangible	net tangible
pro forma		full conversion	consolidated	assets of the	assets of the
adjusted consolidated	Add:	of the	net tangible	Enlarged Group	Enlarged Group
net assets of the	Negative	Convertible	assets of the	attributable to	attributable to
Enlarged Group	goodwill	Notes	Enlarged Group	each Share	each Share
HK\$'000	HK\$'000	HK\$'000	HK\$'000	(Note 4)	(Note 4)
(Note 2)	(Note 3)				
290,785	5,600	250,000	546,385	HK\$0.0395	

Notes:

1. Based on 11,332,430,478 Shares, being 9,332,430,478 Shares in issue as at 31 March 2004 and the 2,000,000,000 Shares issued in March 2005 under the Fully Underwritten Agreement.
2. The breakdown and the adjustments of these figures are shown in the unaudited pro forma consolidated balance sheet of the Enlarged Group upon Completion as set out in section I of this Appendix.
3. Details of the estimated negative goodwill are set out in Note 5 to section I of this Appendix.
4. Based on 13,832,430,478 Shares, being 9,332,430,478 Shares in issue as at 31 March 2004, the 2,000,000,000 Shares issued in March 2005 under the Fully Underwritten Agreement and 2,500,000,000 Shares to be issued as if full conversion of the Convertible Notes at the conversion price of HK\$0.10 per Share.

WORKING CAPITAL

The Directors are of the opinion that taking into account the existing financing available to the Enlarged Group, the working capital requirements and the expected cash flows of the Enlarged Group, and in the absence of unforeseen material circumstances, the Enlarged Group will, following the completion of the Proposed Acquisition, have sufficient working capital for its present requirements for the next 12 months following the date of this circular.

INDEBTEDNESS

At the close of business on 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total indebtedness of approximately HK\$420,011,000. The amount represented unsecured and non-guaranteed loans due to China Travel Service (Hong Kong) Limited (the immediate holding company of SDFP) by SDFP.

As at 30 April 2005, the Enlarged Group also has available banking facilities which have been granted to the Group and had not been utilised as at 30 April 2005. The banking facilities were secured by fixed deposits of approximately HK\$6,582,000 held by the Group.

Save as aforesaid and apart from intra-group liabilities, none of the companies comprising the Enlarged Group had outstanding at the close of business on 30 April 2005, any mortgage, charges or debentures, loan capital issued and outstanding or agree to be issued, bank overdrafts and loans, debt security or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

Subsequent to 30 April 2005 in May 2005, the Enlarged Group obtained a short-term unsecured loan of HK\$30,000,000, which is repayable on or before 11 February 2006, from a financial institute. In May 2005, the Enlarged Group also obtained a long-term unsecured loan of HK\$60,000,000, which is repayable on or before 31 July 2006, from another financial institute.

Save as disclosed above, the Directors confirmed that there had been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 30 April 2005.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 30 April 2005.

Set out below are the texts of the letter, summary of valuation and valuation certificate received from RHL Appraisal Ltd., an independent property valuers in connection with its valuation as at 31 March 2005 of the property interests of the Enlarged Groups.



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
Room 1010 Star House Tsim Sha Tsui, Kowloon, Hong Kong

10 June 2005

The Directors
139 Holdings Limited
Rm 1603-5
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

Dear Sirs,

Re : Valuation of Various Properties in the People's Republic of China (the "PRC") and in the Macau Special Administrative Region of the PRC ("Macau")

INSTRUCTIONS

In accordance with the instructions from **139 Holdings Limited** (referred to as the "Company") for us to value the property interests of the Enlarged Groups (being the Group as enlarged by the proposed acquisition by Walterford Company Limited ("Walterford"), a wholly-owned subsidiary of the Company of the entire issued share capital of Sociedade De Fomento Predial Fu Wa (Macau) Limitada ("SDFP")) situated in the PRC and in Macau (the "Properties"), we confirm that we have conducted site inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the open market values of the Properties as at 31 March 2005 (referred to as the "Valuation Date").

BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean the estimated amount for which a Property should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

For the hotel of the property portfolio namely property numbered 1 which is to be acquired by the Group for hotel businesses, we have valued it as an operational entity on going concern basis assuming that the existing business operations in it shall be continued. Our valuation reflects the value of all chattels and fitting out within the property in associate with the hotel business operations.

VALUATION METHODOLOGY

In valuing the Properties including the hotel in Macau, the “Direct Comparison Method” is adopted where comparison based on prices information of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

The property situated in the PRC has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not been completed as at the Valuation Date. The depreciated replacement costs of the buildings and structures of the same property as at the Valuation Date as disclosed in the footnotes to the valuation certificate were arrived at based on the new replacement cost of the buildings thereon and other site works from which deductions are then made to allow for age, conditions, functional obsolescence, etc. Our opinion of the depreciated replacement costs is subject to the assumption that prospective earnings would provide a reasonable return on the Property plus adequate net working capital and the value of any assets not included in this valuation.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Properties in the open market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the Properties.

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

Other special assumptions of each Property, if any, have been stated in the footnotes of the valuation certificate for each corresponding property.

TITLE INVESTIGATION

We have been provided with copies of legal documents in relation to the Properties and also caused title searches to be made for those properties situated in Macau. However, we have not verified ownership of the Properties nor the existence of any amendments which does not appear on those copies handed to us. In addition, we also relied on the legal opinion prepared by the PRC Lawyer, Guangdong San Zheng Law Office (廣東三正律師事務所) on the Group's title to the Property situated in the PRC and the nature of its land use rights in the same Property.

All legal documents supplied by the Group have been used for reference only. No responsibility regarding title to the Properties stated here is assumed in this valuation report.

LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the Properties but no structural surveys 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 dimensions, measurements and areas are only approximates.

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 such matters as statutory notices, easements, tenure, occupation, construction costs, site and floor areas, profit and loss of the business operated therein and 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 also advised by the Company that no material facts have been omitted from the information supplied.

No allowance has been made in our valuation for any charges, mortgages or amount owing on the Properties nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

REMARKS

We have valued the Property in Hong Kong Dollars (HK\$). The conversion of Renminbi (RMB) into HK\$ is based on the factor of RMB1.06 to HK\$1 with reference to the prevailing exchange rate on the Valuation Date.

Our valuation has been prepared in accordance with the Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors and complied with all the requirements contained in Chapter 5 of the Listing Rules and Practice Note 12 issued by The Stock Exchange of Hong Kong Limited.

We enclose herewith the summary of valuation and the valuation certificates.

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

Tse Wai Leung
BSc MFin MRICS MHKIS RPS(GP)
Director

Sandra S.W. Lau
MFin MHKIS AAPI RPS (GP)
Director

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. Sandra S. W. Lau, who is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them have over ten years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

No.	Property	Capital Value in existing state as at 31 March 2005
Group I – Properties held by SDFP in Macau		
1.	Hotel Grandeur Macau Rua de Pequim 199 Macau	HK\$520,000,000
2.	Units A-H on 3rd Floor of Block 2 and Units A-H on 4th Floor of Block 2 Edificio Nam San Est. Gov Albano Oliverira Macau	HK\$9,180,000
3.	Car Park on 3rd Floor and Units A, B and H on 14th Floor Marine Plaza 183 Rua de Pequim Macau	HK\$6,800,000
Sub-total:		HK\$535,980,000
Group II – Property held and occupied by the Group in the PRC		
4.	Factory Complex of Dongguan Chongqing Electrical Ltd. situated in Sanzhong Management Zone, Qingxi Town, Dongguan City, Guangdong Province, the PRC	No Commercial Value
Sub-total		No Commercial Value
Grand total:		<u>HK\$535,980,000</u>

VALUATION CERTIFICATE

Group I – Properties held by SDFP in Macau

No.	Property	Description	Particulars of occupancy	Capital Value in existing state as at 31 March 2005
1.	Hotel Grandeur Macau Rua de Pequim 199 Macau	The property comprises a 26-storey (without 14th Floor) hotel development plus 2 basement levels completed in the early 1990's. The hotel accommodates a western restaurant on each of 2nd Floor and 26th Floor, an oriental restaurant on 1st Floor, a karaoke lounge on 25th Floor, a swimming pool on 3rd Floor and a total of 355 guest rooms on 5th Floor to 25th Floor. The gross floor area of the property is 267,472.08 square feet. The property is held under a Government lease for a term of 25 years commencing on 30 December 1988 renewable for further terms of 10 years upon expiry.	The property is occupied by Sociedade De Fomento Predial Fu Wa (Macau) Limitada (“SDFP”) for hotel operations.	HK\$520,000,000

Notes:—

- The registered owner of the property is Sociedade De Fomento Predial Fu Wa (Macau) Limitada (澳門富華發展有限公司).
- We have valued the property as an operational entity as a hotel premises reflecting the value of land and building as well as chattels and fitting outs contained therein.
- No mortgage, charge or other encumbrance was registered against the property as per the property search issued on 31 May 2005.
- The property could be freely transferred or leased by its owner.

VALUATION CERTIFICATE

			Particulars of occupancy	Capital Value in existing state as at 31 March 2005																																				
No.	Property	Description and tenure																																						
2.	Units A-H on the 3rd Floor of Block 2 and Units A-H on the 4th Floor of Block 2 Edificio Nam San Est. Gov Albano Oliverira Macau	The property comprises a total of 16 residential units with 8 residential units on each of the 3rd floor and 4th floor of a composite building completed in early 1990's. The total registered floor area of the property is about 15,920 square feet which are broken down as follows: <table><thead><tr><th>Unit</th><th>Registered Floor Area (sq.ft.)</th></tr></thead><tbody><tr><td>3A</td><td>737</td></tr><tr><td>3B</td><td>737</td></tr><tr><td>3C</td><td>1,061</td></tr><tr><td>3D</td><td>1,069</td></tr><tr><td>3E</td><td>1,113</td></tr><tr><td>3F</td><td>1,113</td></tr><tr><td>3G</td><td>1,069</td></tr><tr><td>3H</td><td>1,061</td></tr><tr><td>4A</td><td>737</td></tr><tr><td>4B</td><td>737</td></tr><tr><td>4C</td><td>1,061</td></tr><tr><td>4D</td><td>1,069</td></tr><tr><td>4E</td><td>1,113</td></tr><tr><td>4F</td><td>1,113</td></tr><tr><td>4G</td><td>1,069</td></tr><tr><td>4H</td><td>1,061</td></tr><tr><td>Total:</td><td><u>15,920</u></td></tr></tbody></table> The property is held under a Government lease for a term of 25 years commencing on 27 July 1990 renewable for further terms of 10 years upon expiry.	Unit	Registered Floor Area (sq.ft.)	3A	737	3B	737	3C	1,061	3D	1,069	3E	1,113	3F	1,113	3G	1,069	3H	1,061	4A	737	4B	737	4C	1,061	4D	1,069	4E	1,113	4F	1,113	4G	1,069	4H	1,061	Total:	<u>15,920</u>	The property is occupied by SDFP as staff quarters.	HK\$9,180,000
Unit	Registered Floor Area (sq.ft.)																																							
3A	737																																							
3B	737																																							
3C	1,061																																							
3D	1,069																																							
3E	1,113																																							
3F	1,113																																							
3G	1,069																																							
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4F	1,113																																							
4G	1,069																																							
4H	1,061																																							
Total:	<u>15,920</u>																																							

Notes:—

- The registered owner of the property is Sociedade De Fomento Predial Fu Wa (Macau) Limitada (澳門富華發展有限公司).
- No mortgage, charge or other encumbrance was registered against the property as per the property search issued on 31 May 2005.
- The property could be freely transferred or leased by its owner.

VALUATION CERTIFICATE

			Particulars of occupancy	Capital Value in existing state as at 31 March 2005										
No.	Property	Description and tenure												
3.	Car Park on the 3rd Floor and Units A, B and H on the 14th Floor Marina Plaza Rua de Pequim 183 Macau	The property comprises 46 private car parking spaces, 3 double car parking spaces and 11 motor cycle car parking spaces on the 3rd floor and 3 residential units on the 14th floor of a composite building completed in early 1990's. The total registered floor area of the residential units of the property is 2,238.62 square feet which is broken down as follows: <table><tr><th>Unit</th><th>Registered Floor Area (sq.ft.)</th></tr><tr><td>14A</td><td>760.41</td></tr><tr><td>14B</td><td>709.19</td></tr><tr><td>14H</td><td>769.02</td></tr><tr><td>Total:</td><td>2,238.62</td></tr></table> The property is held under a Government lease for a term of 25 years commencing on 24 February 1989 renewable for further terms of 10 years upon expiry.	Unit	Registered Floor Area (sq.ft.)	14A	760.41	14B	709.19	14H	769.02	Total:	2,238.62	The property is currently owner-occupied.	HK\$6,800,000
Unit	Registered Floor Area (sq.ft.)													
14A	760.41													
14B	709.19													
14H	769.02													
Total:	2,238.62													

Notes:—

1. The registered owner of the property is Sociedade De Fomento Predial Fu Wa (Macau) Limitada (澳門富華發展有限公司).
2. No mortgage, charge or other encumbrance was registered against the property as per the property search issued on 31 May 2005.
3. The property could be freely transferred or leased by its owner.

VALUATION CERTIFICATE

Group II – Property held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 March 2005
4.	Factory Complex of Dongguan Chongqing Electrical Ltd. situated in Sanzhong Management Zone, Qingxi Town, Dongguan City, Guangdong Province, the PRC	The property comprises a 3-storey industrial building and a 3-storey dormitory building erected over two parcels of land with respective site areas of 4,600.27 square metres and 5,006.45 square metres. They were completed in 1991. The gross floor areas of the factory building and dormitory building are approximately 3,765.28 square metres and 2,012.90 square metres respectively. The land use rights in the property were granted through administrative allocation for an unspecified term.	As at the valuation date, the property was occupied by Dongguan Chongqing Electrical Co., Ltd..	No Commercial Value <i>See note 3 below</i>

Notes:—

- As stipulated in two sets of Collective-owned Land Use Certificate (集體土地使用証) {reference nos. Dong Fu Ji Yong (1989) Di 1900202010663 and Dong Fu Ji Yong (1989) Di 1900202010664}, the land use rights in the property are held by Dongguan Qingxi San Zhong Village Committee (東莞市清溪鎮三中村村民委員會), an independent third party to the Enlarged Group, for industrial use.
- As stipulated in two sets of Building Ownership Certificate Record (房屋所有權証存根) {reference nos. Yue Fang Zheng Zi Di 0152978 and 0152979 (粵房証字第0152978 and 0152979)}, the aforesaid buildings are held by Dongguan Chongqing Electrical Co., Ltd. (東莞中渝電子有限公司), a wholly-owned subsidiary of the Company.
- The property has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not been completed by Dongguan Chongqing Electrical Co., Ltd.. Such land premium payment will be applicable when there is a change of Land Use Certificate regarding the property. As at the Latest Practicable Date, Dongguan Chongqing Electrical Co., Ltd. has no intention to acquire or transfer the Land Use Certificate of the property, and therefore, Dongguan Chongqing will not be liable for the land premium payment. Under the current agreement between Dongguan Qingxi San Zhong Village Committee and Dongguan Chongqing Electrical Co., Ltd. and as advised by the PRC legal adviser, Dongguan Chongqing Electrical Co., Ltd. can occupy the property legally. As at the valuation date, the depreciated replacement cost of the Group's buildings and structures in the property is HK\$2,130,000. As per the book of the Company, the carrying values of the property as at 30 September 2004 and as at 31 March 2005 were HK\$3,045,000 and HK\$2,099,000, respectively. As land grant procedures have not yet been applied, the amount of land premium cannot be ascertained at the moment.

4. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
- 4.1 The land use rights in the property were granted to Dongguan Qingxi San Zhong Village Committee(東莞市清溪鎮三中村村民委員會) through administrative allocation;
 - 4.2 The aforesaid buildings are held by Dongguan Chongqing Electrical Co., Ltd. (東莞中渝電子有限公司); and
 - 4.3 Dongguan Chongqing Electrical Co., Ltd. has the legal rights to possess, use and occupy the property. However, the property is prohibited from being transferred or leased on the market.

PROPERTY RECONCILIATION

Property	Hotel Grandeur Macau Rua de Pequim 199 Macau	Units A-H on the 3rd Floor of Block 2 and Units A-H on the 4th Floor of Block 2 Edificio Nam San Est. Gov Albano Oliverira Macau	Car Park on the 3rd Floor and Units A, B and H on the 14th Floor Marina Plaza Rua de Pequim 183 Macau
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying value as at 31 December 2004 (<i>Note 1</i>)	489,997	7,429	5,531 (<i>Notes 5</i>)
Depreciation for the three months ended 31 March 2005 (<i>Note 2</i>)	–	(44)	(10)
Carrying value as at 31 March 2005 (<i>Note 3</i>)	489,997	7,385	5,521
Revaluation Surplus (<i>Note 4</i>)	30,003	1,795	1,279
Valuation Report as at 31 March 2005	520,000	9,180	6,800

**Factory Complex of Dongguan Chongqing
Electrical Ltd. situated in Sanzhong
Management Zone; Qingxi Town,
Dongguan City, Guangdong Province,
the PRC.**

Property	<i>HK\$'000</i>
Carrying value as at 31 March 2004 (<i>Note 1</i>)	3,989
Depreciation for the three months ended 31 March 2005 (<i>Note 2</i>)	473
Carrying value as at 31 March 2005 (<i>Note 3</i>)	2,099
Impairment (<i>Note 6</i>)	(2,099)
Valuation Report as at 31 March 2005	0

Notes:—

1. extracted from note (a) to the balance sheet as set out in Appendix II to this circular.
2. extracted from the management account of SDFP or management account of the Company.
3. extracted from the management account of SDFP or management account of the Company.
4. pursuant to the revaluation of the Group's interests in land and buildings (see Appendix IV to this prospectus), revaluation surplus of approximately HK\$30,003,000, HK\$1,795,000 and HK\$1,279,000 arose. Such revaluation surplus will not be recorded in the Group's accounts as the Group's land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.
5. extracted from note (a) to the balance sheet as set out in Appendix II to this circular. The amount of HK\$5,531,000 was derived by adding HK\$3,804,000 from investment properties with HK\$1,727,000 extracted from land and buildings.
6. the property has no commercial value due to the fact that the land grant procedures including land premium payment for the property have not been completed by Dongguan Chongqing Electrical Co., Ltd..

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTERESTS

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

Name of Director	Capacity	Number of Shares held	Approximate percentage of existing issued share capital of the Company
Mr. Wong Howard	Beneficial owner	212,990,000	1.88%
Mr. Wong Yat Fai	Beneficial owner	212,990,000	1.88%
Mr. Wu Qing	Beneficial owner	212,990,000	1.88%

In addition to the above, Messrs. Wong Howard and Wong Yat Fai hold shares in certain subsidiaries of the Company in a non-beneficial capacity, solely for the purpose of complying the then minimum company membership requirements.

As at the Latest Practicable Date:

- (i) save as disclosed above, none of the Directors and the chief executive of the Company held any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests

and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) were required pursuant to the Model Code, to be notified to the Company and the Stock Exchange;

- (ii) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (iii) none of the Directors is materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group as a whole.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following are details of the persons (other than a Director or chief executive of the Company) who 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 were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Name of shareholder	Long/Short position	Name of Company	Capacity	Number of Shares held	Approximate percentage of existing issued share capital of the Company
Radford Capital Investment Limited (<i>Note a</i>)	Long	The Company	Interests held by a controlled corporation	927,820,000	8.19%
Dollar Group Limited (<i>Note b</i>)	Long	The Company	Beneficial owner	662,474,000	5.85%

Name of shareholder	Long/Short position	Name of Company	Capacity	Number of Shares held	Approximate percentage of existing issued share capital of the Company
Coupeville Limited (Note b)	Long	The Company	Interests held by a controlled corporation	662,474,000	5.85%
Heritage International Holdings Limited (Note b)	Long	The Company	Interests held by a controlled corporation	662,474,000	5.85%

Notes:

- a. Radford Capital Investment Limited held the interests in the share capital of the Company via its wholly-owned subsidiary, Winning Horsee Limited.
- b. Dollar Group Limited was wholly-owned by Coupeville Limited which was a wholly-owned subsidiary of Heritage International Holdings Limited. Accordingly, Coupeville Limited and Heritage International Holdings Limited were deemed to be interested in the 662,474,000 Shares held by Dollar Group Limited.

Save as disclosed above, so far as was known to the Directors or the chief executive of the Company, there was no other person (other than the Directors 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, beneficially 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 member of the Group or in any options in respect of such capital.

DIRECTORS' SERVICE CONTRACTS

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

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

MATERIAL CONTRACTS

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

- (a) the Preliminary Agreement;
- (b) the SP Agreement;
- (c) the Fully Underwritten Placing Agreement; and
- (d) the Best Effort Placing Agreement.

LITIGATION

Neither the Company nor any of its subsidiaries is 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 the Company or any of its subsidiaries.

EXPERTS AND CONSENT

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualifications
Ernst & Young	certified public accountants
RHL Appraisal Ltd.	chartered surveyors
Guangdong San Zheng Law Office	licensed lawyer in the PRC

Each of Ernst & Young, RHL Appraisal Ltd. and Guangdong San Zheng Law Office has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

Each of Ernst & Young, RHL Appraisal Ltd. and Guangdong San Zheng Law Office is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Ernst & Young, RHL Appraisal Ltd. and Guangdong San Zheng Law Office is not interested in the assets which have been acquired or disposed of by or leased to any member of the Group since 31 March 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

MISCELLANEOUS

- (a) The registered office of the Company is 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 at Room 1603-05, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.
- (c) The company secretary and qualified accountant of the Company is Szeto Pui Tong, Patrick, who is an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries, the Chartered Institute of Management Accountants and the Institute of Chartered Secretaries and Administrators.
- (d) The Hong Kong branch share registrars and transfer office of the Company is Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

MATERIAL CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 March 2004, the date to which the last published audited consolidated financial statements of the Group were made up.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the head office and principal place of business of the Company in Hong Kong at Room 1603-05, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual report of the Company for the two years ended 31 March 2004;
- (c) the interim report of the Company for the six months ended 30 September 2004;

- (d) the accountants' report of SDFP, the text of which is set out in Appendix II to this circular;
- (e) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (f) the written consents of the experts referred to in the paragraph headed "Experts and consent" in this appendix;
- (g) the letter from Ernst & Young in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;
- (h) the valuation report prepared by RHL Appraisal Ltd., the text of which is set out in Appendix IV to this circular;
- (i) the legal opinion issued by Guangdong San Zheng Law Office;
- (j) a copy of each of the circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules, which have been issued since 31 March 2004, the date to which the latest published audited consolidated financial statements of the Group were made up; and
- (k) the note instrument which sets out the terms and conditions of the Convertible Notes.

NOTICE OF SPECIAL GENERAL MEETING



139 HOLDINGS LIMITED (139 控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 139)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of the shareholders of 139 Holdings Limited (the “**Company**”) will be held at Basement Function Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 27 June 2005 at 9:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 2 February 2005 and entered into among China Travel Service (Hong Kong) Limited and Findco Enterprises Limited together as vendors and Walterford Company Limited as purchaser (a copy of which has been produced at the SGM and marked “A” and signed by the chairman of the SGM for the purpose of identification) relating to, among other matters, the acquisition (the “**Acquisition**”) of the entire issued share capital of and the shareholder’s loan owed to China Travel Service (Hong Kong) Limited by, Sociedade De Fomento Predial Fu Wa (Macau) Limitada and the transactions contemplated therein be and are hereby approved, ratified and confirmed; and
- (b) the board of directors of the Company (the “**Board**”) be and is hereby authorised to do all other acts and things and take such action as may in the opinion of the Board be necessary desirable or expedient to implement and give effect to the Acquisition.”

2. “**THAT**

- (a) the issue of the convertible notes (the “**Convertible Notes**”) in the aggregate principal amount of HK\$250 million to be issued by the Company in accordance with the terms and conditions of the Sale and Purchase Agreement, a draft of which has been produced at the SGM and marked “B” and signed by the chairman of the SGM for the purpose of identification) and the transactions contemplated therein be and are hereby approved;

* For identification purposes only

NOTICE OF SPECIAL GENERAL MEETING

- (b) the Board be and is hereby authorised to take all steps necessary or expedient in its opinion to implement and/or give effect to the Convertible Notes including but not limited to the allotment and issue of HK\$0.01 each in the capital of the shares of the Company of which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Notes.”

By order of the Board
139 Holdings Limited
Wong Howard
Director

Hong Kong, 10 June 2005

Executive Directors:

Wong Howard (*Chief Executive Officer*)
Wong Yat Fai
Wu Qing

Independent non-executive Directors:

Li Chi Ming
Tung Tat Chiu, Michael
Wan Ngar Yin, David

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place
of business in Hong Kong:*

Room 1603-5
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the SGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the SGM is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, at the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the SGM or any adjournment thereof, should he so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.