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

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

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祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

**VERY SUBSTANTIAL ACQUISITION
AND
PROPOSED CHANGE OF COMPANY NAME**

Financial adviser to Cheung Tai Hong Holdings Limited



SOMERLEY LIMITED

A notice convening the SGM to be held at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 23rd May, 2006 at 11:00 a.m. is set out on pages 191 to 193 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of Cheung Tai Hong Holdings Limited, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

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DEFINITIONS

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

“Acquisition”	acquisition of the Sale Shares and the Sale Debt by New Smarten pursuant to the Acquisition Agreement
“Acquisition Agreement”	the acquisition agreement dated 2nd February, 2006 entered into between the Vendors, New Smarten and the Guarantors in relation to the Acquisition
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Braniff”	Braniff Developments Limited, a company incorporated in the BVI with limited liability, the entire issued share capital of which is, as at the Latest Practicable Date, beneficially owned by Mr. Chan and Mr. Lai
“Business Day”	a day (other than Saturday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which the banks are open for business in Hong Kong
“BVI”	the British Virgin Islands
“Company”	Cheung Tai Hong Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Date”	the seventh Business Day immediately after all the conditions contained in the Acquisition Agreement have been duly fulfilled or waived (as the case may be), or such other date as the Vendors and New Smarten may mutually agree in writing
“Concord”	Concord Link Development Limited, a company incorporated in Hong Kong with limited liability which is interested in 6,172,368 shares in Everight

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“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration for the Acquisition, being HK\$140 million, to be satisfied as to HK\$80 million by cash and HK\$60 million by issue of the Notes pursuant to the terms of the Acquisition Agreement
“Conversion Price”	HK\$0.44 per Share (subject to adjustments)
“Conversion Rights”	the rights to convert the principal amount (or any part thereof) of the Notes into Shares
“Conversion Shares”	Shares to be allotted and issued upon exercise of the Conversion Rights attached to the Notes
“Director(s)”	the director(s) of the Company
“Donson”	Donson (International) Development Limited, a company incorporated in Hong Kong with limited liability in which Everight, through its non wholly-owned subsidiary, holds an effective interest of approximately 55.57%
“Donson Group”	Donson and its subsidiaries
“Enlarged Group”	the Group after completion of the Acquisition
“Everight”	Everight Investment Limited, a company incorporated in Hong Kong with limited liability which is currently owned as to approximately 63.76% by Green Label, approximately 13.02% by Concord, approximately 20.63% by Magnum and approximately 2.59% by Mr. Ku
“Everight Group”	Everight and its subsidiaries
“Green Label”	Green Label Investments Limited, a company incorporated in the BVI with limited liability which is interested in 30,231,045 shares in Everight
“Green Label Note”	the zero coupon convertible note due on 11th August, 2010 in the principal amount of HK\$39,272,307 to be issued by the Company to Green Label on Completion as part of the Consideration
“Group”	the Company and its subsidiaries
“Guarantors”	Mr. Chan and Mr. Lai

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“HK GAAP”	generally accepted accounting principles applicable in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	21st April, 2006, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the date falling 4 months after the date of the Acquisition Agreement or such other date as the relevant parties may agree in writing
“Macau”	the Macau Special Administrative Region of the PRC
“Magnum”	Magnum Company Limited, a company incorporated in Hong Kong with limited liability which is interested in 9,783,400 shares in Everight
“Magnum Note”	the zero coupon convertible note due on 11th August, 2010 in the principal amount of HK\$20,727,693 to be issued by the Company to Magnum on Completion as part of the Consideration
“Maturity Date”	11th August, 2010, being the maturity date of the Notes
“Mr. Chan”	Chan Jink Chou, Eric (陳正秋), the beneficial owner of the entire issued share capital of Magnum and the controlling shareholder of Concord
“Mr. Lai”	Lai Tsan Tung, David (賴贊東), the beneficial owner of the entire issued capital of Green Label
“Mr. Ku”	Ku Yuet Kan, Tony (顧悅勤), who is interested in 1,225,879 shares in Everight
“New Smarten”	New Smarten Limited, a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of the Company
“Notes”	the Green Label Note and the Magnum Note
“Panyu Development Projects”	collectively the Panyu Phase I Development Project and the Panyu Phase II Development Project

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“Panyu Phase I Land”	several adjoining pieces of land within the boundary of or adjacent to the golf club in Pan Yu known as “Lotus Hill Golf Club” and having a site area of approximately 80,000m ²
“Panyu Phase II Land”	several adjoining pieces of land within the boundary of or adjacent to the Lotus Hill Golf Club and having a site area of approximately 106,000m ²
“Panyu Phase I Development Project”	the construction of the villas and apartments now standing on the Panyu Phase I Land and the sale thereof
“Panyu Phase II Development Project”	the development of the Panyu Phase II Land by the erection thereon of residential premises being villas having a total saleable area of not less than 40,000m ² and apartments having a total saleable area of not less than 30,000m ²
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this circular
“Properties”	land comprised in the relevant land use right certificates, including the Panyu Phase I Land and the Panyu Phase II Land, and the buildings thereon, and the Yalong Bayview Land and the buildings erected thereon
“Sale Shares”	the 47,412,692 shares of Everight held by Green Label, Concord, Magnum and Mr. Ku in aggregate, representing the entire issued share capital of Everight
“Sale Debt”	55.57% of the Vendor’s Loan
“Service Agreement(s)”	the service agreement(s) to be entered into between Donson and (i) Mr. Chan and (ii) Mr. Lai respectively on Completion, in such form and on such terms and conditions as New Smarten may approve
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company

DEFINITIONS

“Shareholder(s)”	shareholder(s) of the Company
“Shareholders’ Agreement”	the shareholders’ agreement in respect of Smart Sharp and its subsidiaries, to be executed by Everight and Braniff, being the only shareholders of Smart Sharp, and Mr. Chan, Mr. Lai, Smart Sharp and the Company, on Completion
“Shareholder’s Loan(s)”	the loan(s) up to a maximum amount of HK\$80 million which may be granted by Everight to Smart Sharp and/or its subsidiaries during the period of two years commencing from the date of the Shareholders’ Agreement
“Smart Sharp”	Smart Sharp Investment Limited, a company incorporated in Hong Kong with limited liability which is owned as to approximately 63.03% by Everight and approximately 36.97% by (prior to the acquisition by Braniff) an independent third party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	Green Label, Concord, Magnum and Mr. Ku
“Vendor’s Loan”	all the amounts which may be owing by Donson to Green Label as at Completion, which shall be HK\$3,810,000
“Yalong Bayview Land”	several adjoining pieces of land within the boundary of or adjacent to the golf club in Yalong Bay known as “Sun Valley Golf Resort” and having a site area of approximately 120,000m ²
“Yalong Bayview Development Project”	the development of the Yalong Bayview Land by the erection thereon of residential premises being villas having a total saleable area of not less than 15,000m ² and condominiums/apartments having a total saleable area of not less than 14,000m ²
“2005 February Note”	the 2% convertible notes due 2008 in the aggregate principal sum of HK\$100 million issued by the Company on 23rd February, 2005
“2005 August Note”	the zero coupon convertible notes due 2010 in the aggregate principal sum of HK\$1,000 million issued by the Company on 11th August, 2005

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“2005 Notes”	the 2005 February Note and the 2005 August Note
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.
“m ² ”	square metre

In this circular, RMB are converted into HK\$ on the basis of RMB1.04 = HK\$1 (unless otherwise stated) for illustrative purpose.

LETTER FROM THE BOARD



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

Executive Directors:

Mr. Cheung Hon Kit (Chairman)

Mr. Chan Fut Yan (Managing Director)

Non-executive Directors:

Mr. Ho Hau Chong, Norman (Deputy Chairman)

Mr. Lo Lin Shing, Simon

Independent non-executive Directors:

Mr. Wong Chi Keung, Alvin

Mr. Kwok Ka Lap, Alva

Mr. Chui Sai Cheong

Registered office:

Clarendon House

Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

29/F., Paul Y. Centre

51 Hung To Road

Kwun Tong

Kowloon

Hong Kong

26th April, 2006

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND PROPOSED CHANGE OF COMPANY NAME

INTRODUCTION

On 2nd February, 2006, New Smarten, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendors in relation to the acquisition of their respective shareholdings in Everight and the loan (the amount of which is to be determined at Completion) owed by Everight Group to Green Label for an aggregate consideration of HK\$140 million. The Consideration is to be satisfied as to HK\$80 million by cash and HK\$60 million by issue of the Notes pursuant to the terms of the Acquisition Agreement.

On Completion, the Company, Everight, Braniff, Smart Sharp, Mr. Chan and Mr. Lai shall enter into the Shareholders' Agreement, pursuant to which Everight shall be responsible for financing the working capital requirement of Smart Sharp and its subsidiaries for the first two years commencing from the date of the Shareholders' Agreement up to a maximum amount of HK\$80 million.

The Acquisition, when aggregated with the Shareholder's Loan(s), constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval pursuant to Rule 14.49 of the Listing Rules. Details of the Acquisition Agreement are set out below.

* For identification purpose only

LETTER FROM THE BOARD

The Board proposes to change the English name of the Company from “Cheung Tai Hong Holdings Limited” to “Macau Prime Properties Holdings Limited” and adopt the Chinese name “澳門祥泰地產集團有限公司” in lieu of “祥泰行集團有限公司” for identification purpose.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition Agreement; (ii) financial information relating to the Group, Everight Group and the Enlarged Group; (iii) information relating to the proposed change of name of the Company; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules.

THE ACQUISITION AGREEMENT

Parties

Vendors:

1. Green Label, holding 30,231,045 shares or approximately 63.76% interest in Everight;
2. Concord, holding 6,172,368 shares or approximately 13.02% interest in Everight;
3. Magnum, holding 9,783,400 shares or approximately 20.63% interest in Everight; and
4. Mr. Ku, holding 1,225,879 shares or approximately 2.59% interest in Everight.

Green Label, Concord and Magnum are investment holding companies.

Save for being a party to the Acquisition Agreement and the ancillary agreements (as described below), to the best of the Directors' knowledge, information and belief and after having made all reasonable enquiry, Green Label and its beneficial owner, Mr. Lai; Concord and its shareholders including Mr. Chan; Magnum and its beneficial owner, Mr. Chan; and Mr. Ku, all are independent of the Company and its connected persons and are not connected persons.

Purchaser: New Smarten, an indirect wholly-owned subsidiary of the Company.

Guarantors:

1. Mr. Lai, the beneficial owner of the entire issued share capital of Green Label; and
2. Mr. Chan, the beneficial owner of the entire issued share capital of Magnum and the controlling shareholder of Concord.

Assets to be acquired

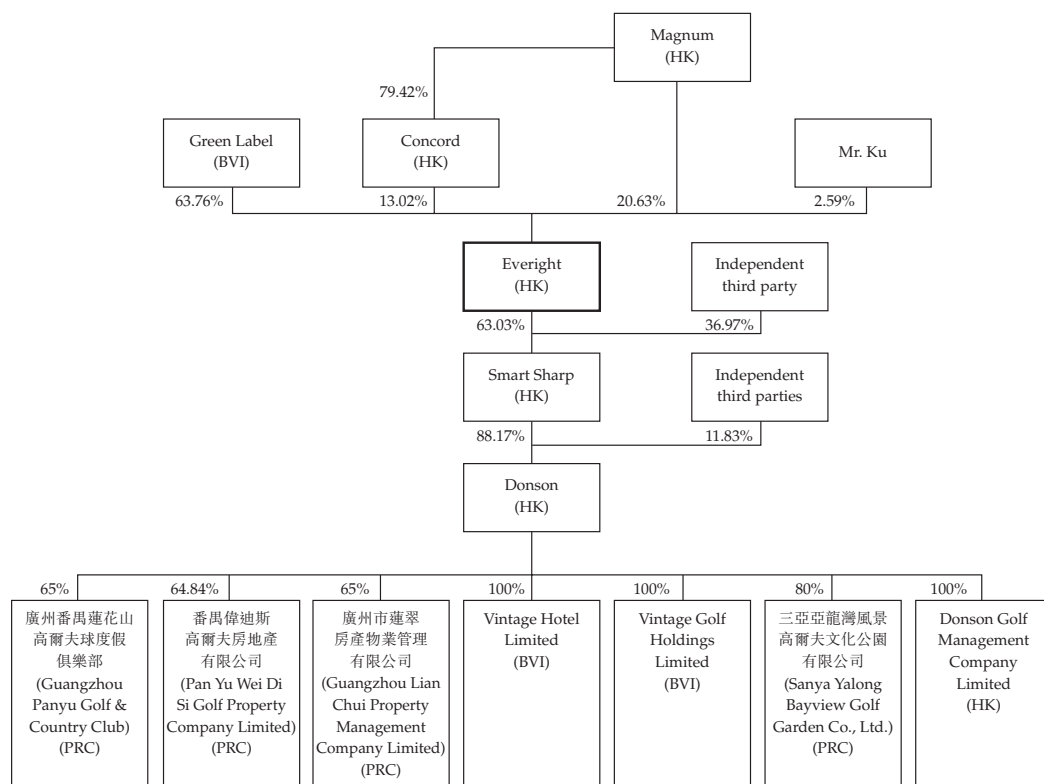
1. The Sale Shares, being the entire issued share capital of Everight; and
2. The Sale Debt, being 55.57% of the Vendor's Loan as at Completion.

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As at the Latest Practicable Date, Everight is effectively interested in approximately 55.57% in the issued share capital of Donson, which has interests in a group of companies principally engaging in golf resort and hotel operations, provision of food and beverage services and property development, investment and management in the PRC.

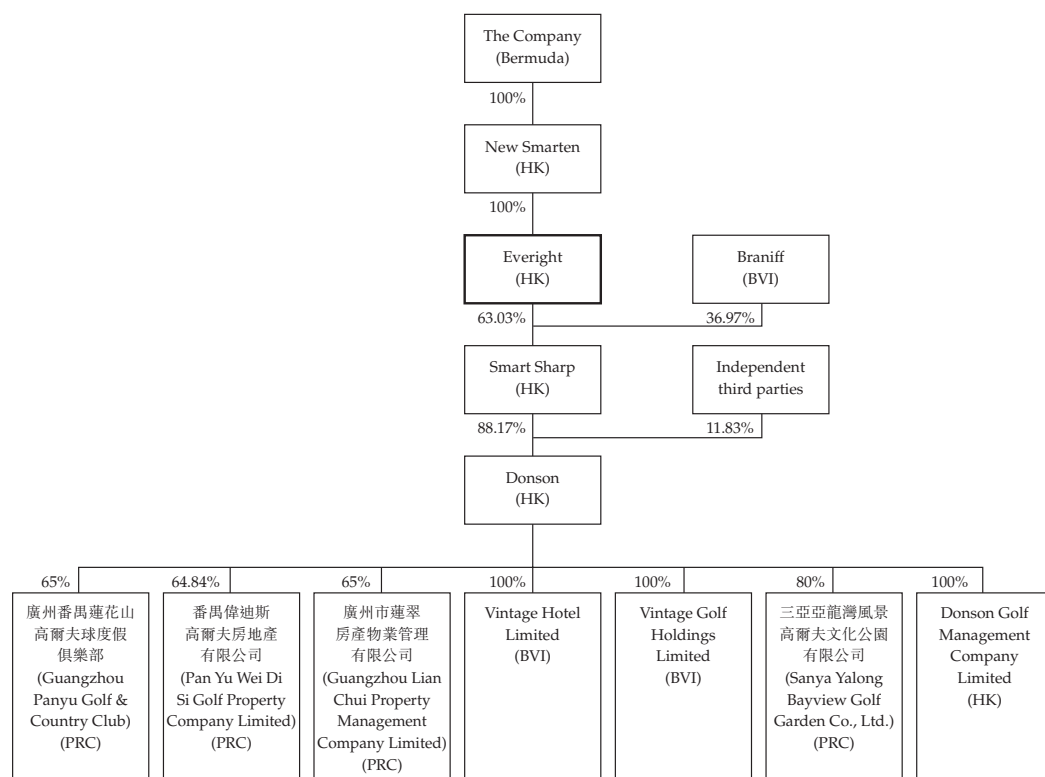
The following illustrates the structure of Everight Group:

Before the Acquisition



LETTER FROM THE BOARD

After the Acquisition



Note: As one of the requirements of Completion, Braniff, the entire issued share capital of which is as at the Latest Practicable Date indirectly owned by Mr. Chan and Mr. Lai, should have completed its acquisition of the registered and beneficial ownership of all the issued shares of and in Smart Sharp held by an independent third party, such that Mr. Chan and Mr. Lai become the indirect beneficial owners of not less than 24% of the issued share capital of and in Smart Sharp on Completion. Prior to the Latest Practicable Date, Braniff has entered into an agreement with such independent third party to acquire the issued shares of and in Smart Sharp which completion is expected around end of April 2006. In addition, Mr. Chan and Mr. Lai have further entered into an agreement with such independent third party, who is one of the existing shareholders of Smart Sharp indirectly holding 36.97% interest in Smart Sharp, to become a shareholder of Braniff, which completion is expected after the Completion.

The Company currently has no plan to acquire the excess 12.97% interest in Smart Sharp from Braniff should the negotiation between Mr. Chan and Mr. Lai and the abovementioned person fail.

According to the Shareholders' Agreement, the board of Smart Sharp shall consist of not more than five directors, of which Braniff shall be entitled to nominate not more than two directors and Everight shall be entitled to nominate not more than three directors.

Upon Completion, Everight will become an indirect wholly-owned subsidiary of the Company. Further details of Everight Group are set out in the paragraph headed "Information on Everight Group" below.

LETTER FROM THE BOARD

Consideration and payment terms

The consideration for the Acquisition is HK\$140 million (subject to adjustments as described below), which shall be apportioned to the Sale Shares and the Sale Debt as follows:

- the consideration for the Sale Debt shall be the face amount of the Sale Debt; and
- the consideration for the Sale Shares shall be HK\$140 million less the consideration for the Sale Debt, which shall be apportioned to Green Label, Concord, Magnum and Mr. Ku on a pro-rata basis according to their percentage shareholding in Everight.

A cash deposit of HK\$5 million has been paid to the Vendors' solicitors as escrow agent upon signing of the Acquisition Agreement. Such deposit will upon Completion represent part payment of the Consideration and shall be paid to Green Label, Concord, Magnum and Mr. Ku on a pro-rata basis according to their respective percentage shareholding in Everight.

The balance of the Consideration shall be paid in the following manner:

- (a) a sum of HK\$75 million to be paid by New Smarten to the Vendors on Completion as follows:
 - (i) as to approximately HK\$46.8 million to Green Label;
 - (ii) as to approximately HK\$9.6 million to Concord (which Concord has directed New Smarten to pay to Magnum directly);
 - (iii) as to approximately HK\$15.1 million to Magnum; and
 - (iv) as to approximately HK\$3.5 million to Mr. Ku; and
- (b) the balance of HK\$60 million to be satisfied on Completion by the issue of the Green Label Note and the Magnum Note.

The cash portion of the Consideration will be financed by internal resources of the Group.

Principal terms of the Notes are set out in the section below headed "Principal terms of the Notes".

LETTER FROM THE BOARD

Under the Acquisition Agreement, the Vendors undertook to New Smarten, among others, that:

- (a) villas and apartments having saleable area of not less than 40,000m² and 30,000m² respectively can lawfully be erected on Panyu Phase II Land for sale under the Panyu Phase II Development Project and all relevant PRC governmental consents and approvals for the construction thereof will be obtained within four years after the Completion Date;
- (b) villas and condominiums/apartments having saleable area of not less than 15,000m² and 14,000m² respectively can lawfully be erected on the Yalong Bayview Land for rental and/or time share and/or resort facilities under the Yalong Bayview Development Project and all relevant PRC government consents and approvals for construction thereof will be obtained within four years after the Completion Date; and
- (c) Donson will not record on its audited consolidated financial statements prepared under the HK GAAP in effect from time to time any loss for the financial year ended 31st December, 2005 and the profit before tax and minority interests of Donson and its subsidiaries for the period commencing on 1st January, 2006 and ending 31st March, 2008 in aggregate will not be less than HK\$50 million (provided that in calculating such loss or profit, the amounts of corporate overhead charged on Donson by the Group shall not be taken into account unless otherwise agreed by the Vendors).

In the event that the saleable area of the Panyu Phase II Development Project and/or the Yalong Bayview Development Project falls short of that warranted as described in (a) and (b) above, the Vendors shall compensate New Smarten in the ranges from HK\$350 to HK\$700 for each square metre of shortfall in respect of the Panyu Phase II Development Project and from approximately HK\$460 to HK\$1,000 for each square metre of shortfall in respect of the Yalong Bayview Development Project.

In the event of breach of (c) above, the Vendors shall compensate Everight a pro-rata amount of such loss and/or shortfall in cash, based on the effective shareholding of Everight in Donson.

The maximum liability of the Vendors (other than Mr. Ku) and Mr. Ku individually in respect of all claims for breach of the warranties and undertakings contained in the Acquisition Agreement shall not exceed the sum of HK\$60 million and HK\$3 million respectively. No claim shall be made by New Smarten in respect of any breach of warranties and undertakings after the fifth anniversary of the Completion Date or the maturity of the Notes, whichever is earlier. The Vendors shall have no further liability under any warranties or undertakings contained in the Acquisition Agreement if the consolidated profits before tax and minority interests of Donson (to be based on the audited financial statements prepared under the HK GAAP) for the three years commencing from 1st April, 2006 and ending on 31st March, 2009 in aggregate exceeds HK\$200 million (provided that in calculating such profit, the amounts of corporate overhead charged on Donson by the Group shall not be taken into account unless otherwise agreed by the Vendors) or the net

LETTER FROM THE BOARD

consolidated cash inflow from operating and investing activities but before financing activities of Donson for the three years commencing from 1st April, 2006 and ending on 31st March, 2009 in aggregate exceeds HK\$300 million.

The Consideration was determined after arms' length negotiations between the Vendors and the Company having taken into account the business potential and growth prospects of Everight Group and with reference to, among others, the consolidated net assets value of Everight Group (as adjusted by the Company to take into account the new and revised Hong Kong Financial Reporting Standards which have become effective for accounting periods beginning on or after 1st January, 2005) of approximately HK\$87.3 million, the fair value of the golf resort operations in Lotus Hill, Panyu, Guangdong and Yalong Bay, Sanya, Hainan of RMB443 million in aggregate (approximately HK\$426 million) valued by RHL Appraisal Ltd., a firm of independent professional valuers, on 31st January, 2006, the Vendors' undertaking of accounts payable in aggregate of approximately HK\$20.9 million of Everight Group and the face value of the Sale Debt.

The payment of part of the Consideration by way of the issue of the Green Label Note and the Magnum Note is to avoid causing a significant negative impact on the liquidity position of the Group. In addition, the potential opportunity of sharing the future growth of the Company serves as an incentive for the continuing services of Mr. Lai and Mr. Chan to Everight Group. The Board considers the Consideration, together with the payment terms, fair and reasonable.

Conditions precedent

Completion is conditional on:

- (i) New Smarten being satisfied with the results of the due diligence review on Everight Group;
- (ii) the warranties, representations and undertakings given by the Vendors under the Acquisition Agreement remaining true and accurate and not misleading in any material respect as if repeated at Completion and at all times between the date of the Acquisition Agreement and Completion;
- (iii) all necessary statutory governmental and regulatory obligations having been complied with and all necessary regulatory, statutory, governmental and third party consents and waivers having been obtained and all filings having been made and waiting periods having expired or been terminated in connection with the Acquisition and the uninterrupted continuation of the business being carried on or that have been carried on in the past by each of the companies in Everight Group and the current rights and business of Everight Group after Completion;

LETTER FROM THE BOARD

- (iv) the delivery by the Vendors to New Smarten of a legal opinion issued by a BVI law firm acceptable to New Smarten and addressed to New Smarten confirming the due incorporation, good standing and shareholding and directorship of Green Label, the due execution of the Acquisition Agreement by Green Label and the due incorporation, good standing and shareholding and directorship of each company in Everight Group which was incorporated in the BVI in such form and substance to the satisfaction of New Smarten and to be dated no earlier than seven Business Days prior to the Completion Date;
- (v) the delivery by the Vendors to New Smarten of a legal opinion issued by a PRC law firm acceptable to New Smarten and addressed to New Smarten in respect of each company in Everight Group which was incorporated in the PRC and its business and the Properties in such form and substance to the satisfaction to New Smarten and to be dated no earlier than the latest date on which all the other conditions precedent are fulfilled (or if applicable, waived);
- (vi) approval by the Shareholders (or independent Shareholders, if required) of the Acquisition, the issue of the Notes by the Company, the issue and allotment of the Conversion Shares and all other transactions contemplated under the Acquisition Agreement at the SGM, in compliance with the requirements of the Listing Rules;
- (vii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares;
- (viii) the compliance of any other requirements under the Listing Rules or otherwise of the Stock Exchange or other regulatory authorities which requires compliance at any time prior to Completion in relation to the transactions contemplated under the Acquisition Agreement;
- (ix) no material adverse change having occurred; and
- (x) the Service Agreements to be entered into between Donson and Mr. Chan and Mr. Lai respectively having been agreed on such terms and conditions and in such form and substance to the satisfaction of New Smarten.

The Vendors shall use all reasonable endeavours to procure the fulfilment of all the above conditions (other than conditions (vi), (vii) and (viii)) and New Smarten shall use all reasonable endeavours to procure the fulfilment of conditions (vi), (vii) and (viii).

If any of the above conditions has not been fulfilled or waived by New Smarten by notice in writing to the Vendors (save for conditions (vi), (vii) and (viii) which cannot be waived) on or before the Long Stop Date and/or conditions (ii) and (ix) do not remain fulfilled and are not waived by New Smarten on the Completion Date, the rights and obligations of the parties under the Acquisition Agreement shall lapse and be of no further effect except for antecedent breach. As at the Latest Practicable Date, conditions precedent (i) and (iii) have been fulfilled. The Company has no intention to waive any of the above conditions precedent.

LETTER FROM THE BOARD

If after fulfilment or waiver (as the case may be) of the above conditions, New Smarten shall fail to complete the Acquisition in accordance with the terms and conditions of the Acquisition Agreement, the deposit shall be released by the Vendors' solicitors to the Vendors and forfeited by the Vendors and the Vendors shall have no further claim against New Smarten under the Acquisition Agreement whatsoever.

If the Vendors shall fail to complete the Acquisition in breach of the terms and conditions of the Acquisition Agreement notwithstanding fulfilment or waiver (as the case may be) of the above conditions or if New Smarten rescinds or terminates the Acquisition Agreement due to any breach of the terms of the Acquisition Agreement by the Vendors, the deposit shall be released by the Vendors' solicitors to New Smarten together with all interests accrued thereon forthwith and the Vendors shall pay to New Smarten a further sum of HK\$5 million as compensation. Upon receipt by New Smarten of the refund of the deposit, the said interests and compensation, New Smarten shall have no further claim against the Vendors under the Acquisition Agreement whatsoever.

Completion

Completion shall take place on the seventh Business Day immediately after all of the above conditions precedent have been duly fulfilled or waived (as the case may be) or such other date as the Vendors and New Smarten may mutually agree in writing.

Upon Completion, the Vendors shall provide New Smarten with, among other things, documentary evidence to the satisfaction of New Smarten that Braniff has completed its acquisition of the entire issued shares of and in Smart Sharp held by an independent third party, such that Mr. Chan and Mr. Lai become the indirect beneficial owners of not less than 24% of the issued share capital of and in Smart Sharp.

The Acquisition may or may not become unconditional. Shareholders and investors should exercise caution when dealing in the Shares.

The Shareholders' Agreement

As stipulated in the Acquisition Agreement, a shareholders' agreement among the Company, Everight, Braniff, Smart Sharp, Mr. Chan and Mr. Lai will be entered into on Completion. Pursuant to the Shareholders' Agreement, Everight shall be responsible for, among other things, financing the working capital of Smart Sharp and its subsidiaries for the first two years commencing from the date of the Shareholders' Agreement up to a maximum amount of HK\$80 million which will be financed by the internal resources of the Group. The Shareholder's Loan will only be drawdown, if and to the extent resolved by the board of directors of Smart Sharp, the majority of which will comprise of nominees of Everight, a wholly-owned subsidiary of the Company after Completion. The amount(s) so advanced shall carry interest calculated at the prime rate for Hong Kong dollars per annum from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited and shall be repayable on demand. Braniff is not obligated to provide any financing to Smart Sharp.

LETTER FROM THE BOARD

Pledge of the Notes

Pursuant to the Acquisition Agreement, the Notes shall be deposited by each of Green Label and Magnum with New Smarten's solicitors for securing due observance and performance by the Vendors of all their agreements, obligations, commitments and undertakings contained in the Acquisition Agreement, and may be released to Green Label and/or Magnum by stages according to the PRC government consent and approval being obtained for the construction of villas and apartments/condominiums (as the case may be) on the Panyu Phase II Land and the Yalong Bayview Land respectively as stipulated in the Acquisition Agreement or otherwise with the prior written consent of the Company and New Smarten.

The Service Agreements

Mr. Lai and Mr. Chan will respectively enter into a service agreement with Donson. Mr. Lai and Mr. Chan, being the existing chairman and managing director respectively of Donson, are the founders of Donson Group who are actively involved in the operations and management of Donson and have established business network in respect of the operations of Everight Group in the PRC. The Service Agreements with Mr. Lai and Mr. Chan could secure their continuing services to Everight Group and are beneficial to the Group after the Acquisition. Based on the negotiations up to the Latest Practicable Date, Mr. Lai and Mr. Chan will remain as the chairman and managing director of Donson respectively.

PRINCIPAL TERMS OF THE NOTES

The terms of the Green Label Note and the Magnum Note are the same except for their respective principal amount. The principal terms of the Notes are summarised below:

Principal amount

The aggregate principal amount of the Green Label Note and the Magnum Note will be HK\$39,272,307 and HK\$20,727,693 respectively.

Interest

The Notes bear zero interest.

Maturity

The Notes mature on 11th August, 2010.

Conversion Price

The Notes will be convertible into Shares at an initial conversion price of HK\$0.44 per Share. The Conversion Price will be subject to adjustment for, among other things, consolidation or subdivision of Shares, bonus issue, distributions, rights issue or other dilutive events.

LETTER FROM THE BOARD

Based on the Conversion Price of HK\$0.44 per Share, a total of 136,363,636 Conversion Shares will be issued upon full conversion of the Notes. As at the Latest Practicable Date, such Conversion Shares represent approximately 10.36% of the existing issued share capital of the Company and 9.38% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Conversion Price.

The Conversion Price of HK\$0.44 per Share represents:

- (i) a premium of approximately 12.8% over the closing price of the Share of HK\$0.390 as quoted on the Stock Exchange on 2nd February, 2006, being the last trading day immediately preceding the signing of the Acquisition Agreement;
- (ii) a premium of approximately 13.7% over the average closing price of the Share of approximately HK\$0.387 over the 10 trading days up to and including 2nd February, 2006;
- (iii) a premium of approximately 16.7% over the average closing price of the Share of approximately HK\$0.377 over the 30 trading days up to and including 2nd February, 2006;
- (iv) a discount of approximately 32.3% to the closing price of the Share of approximately HK\$0.65 on 13th April, 2006, the date on which trading in the Shares was suspended pending the release of an announcement in respect of a proposed issue of equity securities by the Company;
- (v) a discount of approximately 12.0% to the adjusted consolidated net asset value per Share of approximately HK\$0.50 based on the audited consolidated net asset attributable to the Shareholders as at 31st March, 2005 as adjusted for the conversions of the 2005 February Note and the 2005 August Note subsequent to 31st March, 2005 and up to the Latest Practicable Date of approximately HK\$659.1 million and the issued share capital of the Company at the Latest Practicable Date; and
- (vi) a discount of approximately 22.8% to the adjusted consolidated net asset value per Share of approximately HK\$0.57 based on the unaudited consolidated net asset attributable to the Shareholders as at 30th September, 2005 as adjusted for the conversions of the 2005 February Note and the 2005 August Note subsequent to 30th September, 2005 and up to the Latest Practicable Date of approximately HK\$749.2 million and the issued share capital of the Company at the Latest Practicable Date.

The Conversion Price of HK\$0.44 per Share was negotiated between the Company and the Vendors on arm's length basis and with reference to the average closing price of the Shares of approximately HK\$0.377 over the 30 trading days up to and including 1st February, 2006.

LETTER FROM THE BOARD

Conversion period

The holder(s) of the Notes may at any time, in compliance with the provisions contained in the Notes, during the period commencing from the 15th day after the issue of the Notes up to and including the date which is 15 days prior to the Maturity Date, require the Company to convert the whole or any part of the principal amount outstanding (in whole multiples of HK\$500,000 or, if less, the then outstanding principal amount of the relevant Note) into Shares at the Conversion Price subject to adjustments.

Transfer

Subject to the conditions, approvals, requirements and any other provision of the Stock Exchange in respect of the Conversion Shares, each of the Notes may be transferred to any person. The Notes (or any part thereof) may not be assigned or transferred to a connected person of the Company without prior written consent of the Company.

Redemption

Unless previously converted or purchased and cancelled in accordance with the terms and conditions of each of the Notes, the Company will redeem, on the Maturity Date, each of the Notes at a premium of not exceeding 9% of its principal amount to be agreed between the Company and the respective holders of the Notes upon its issue such that the Notes will have a constant rate of return as the 2005 August Note.

Conversion

The holder(s) of the Notes shall be deemed to have issued and delivered to the Company a conversion notice in respect of all principal amount outstanding under the relevant Notes if at any time after the first anniversary of the issue date of the Notes the average closing price per Share for 20 consecutive dealing days is higher than HK\$0.85 (subject to adjustments in the event of any alterations in the capital structure of the Company such as consolidation or subdivision of Shares).

Voting

The holder(s) of the Notes will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of them being holders of the Notes.

Listing

No application will be made for the listing of the Notes on the Stock Exchange or any other stock exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the Conversion Rights.

Ranking

The Notes shall rank pari passu with all other present and future unsecured and unsubordinated obligations of the Company.

LETTER FROM THE BOARD

The Conversion Shares shall rank equally in all respects with the Shares then in issue.

CHANGES IN SHAREHOLDING STRUCTURE

Based on the Conversion Price of HK\$0.44 per Share, a total of 136,363,636 Conversion Shares will be issued upon full conversion of the Notes. The following table illustrates the possible effect on the Company's shareholding structure as a result of the Acquisition assuming (i) the issued share capital of the Company remains unchanged until the date of issue of the Notes; (ii) the Notes are fully converted into Conversion Shares at the Conversion Price of HK\$0.44 each; and (iii) the Notes and the 2005 August Note are fully converted into Shares at their respective conversion price:

Shareholders	(i) As at		(ii) Upon		(iii) Upon full	
	the Latest		full conversion		conversion of	
	Practicable Date		of the Notes		the Notes	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Subscribers of the 2005 August Note						
Mr. Ho Hau Chong, Norman ("Mr. Ho") (Note 1)	113,636,363	8.63	113,636,363	7.82	340,909,090	11.42
Hanny Holdings Limited (Note 2)	272,727,272	20.71	272,727,272	18.77	1,022,727,272	34.25
Four fund subscribers (Notes 3 and 4)	227,272,725	17.26	227,272,725	15.64	443,181,814	14.84
Other fund subscribers (Note 4)	85,227,272	6.48	85,227,272	5.87	356,818,180	11.95
Subtotal	698,863,632	53.08	698,863,632	48.10	2,163,636,356	72.46
Green Label (Note 5)	-	-	89,255,243	6.14	89,255,243	2.99
Magnum (Note 5)	-	-	47,108,393	3.24	47,108,393	1.58
Public	617,800,274	46.92	617,800,274	42.52	685,982,105	22.97
Total	<u>1,316,663,906</u>	<u>100.00</u>	<u>1,453,027,542</u>	<u>100.00</u>	<u>2,985,982,097</u>	<u>100.00</u>

Notes:

- Mr. Ho, a non-executive Director, is deemed to be interested in the 113,636,363 Shares and 227,272,727 underlying Shares upon full conversion of the 2005 August Note of HK\$100 million held by Kopola Investment Company Limited, a company in which he has 50% interest.
- Hanny Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange, is deemed to be interested in the 272,727,272 Shares and 750,000,000 underlying Shares upon full conversion of the 2005 August Note of HK\$330 million held by Loyal Concept Ltd., an indirect wholly-owned subsidiary of Hanny Holdings Limited.

LETTER FROM THE BOARD

3. Being four of the subscribers of the 2005 August Note, who are funds related to each other to the extent that they have been established and are managed by a common investment manager.
4. Each of the fund subscribers and their respective investment managers is independent of, not connected and not acting in concert with the Company and its connected persons, and is not connected person of the Company.
5. There is no agreement currently in place as to whether Green Label and/or Magnum will nominate any directors to the Company upon full conversion of the Notes. Both Green Label and Magnum confirms that upon issue of the Conversion Shares, they will not together with their respective persons acting in concert with them jointly or severally hold 30% or more of the total number of Shares then in issue. Both Green Label and Magnum currently have no intention to convert the Notes into Shares.
6. The conversion price of the 2005 August Note is HK\$0.44 per Share (subject to adjustments). Up to the Latest Practicable Date, an aggregate principal amount of HK\$325.5 million of the 2005 August Note has been converted into Shares. According to the terms of the 2005 August Note, the conversion price of the 2005 August Note may require adjustments as a result of the issue of the Notes. Upon completion of the issue of the Notes, the Company will notify the holders of 2005 August Note in relation to any adjustment to the conversion price of the 2005 August Note.

The Company and the Directors will take appropriate steps to ensure that there will be sufficient public float for the Shares immediately following conversions and at any time during the terms of the Notes and the 2005 August Note.

The Stock Exchange has indicated that should the Notes or the 2005 August Note be converted, it will closely monitor trading in the Shares if less than 25% of the issued Shares are held by the public. If the Stock Exchange believes that a false market exists or may exist in the trading in the Shares, or there are too few Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained.

INFORMATION ON EVERIGHT GROUP

Everight is an investment holding company which has an effective interest of 55.57% in the entire issued share capital of Donson. At present, Everight Group operates two golf clubs, one in Lotus Hill, Panyu, Guangdong and one in Yalong Bay, Sanya, Hainan. In addition, 95 villas and 76 apartments have been constructed on Panyu Phase I Land for sale with 12 villas (each subject to long term lease) remain unsold. Everight intends to carry out the Panyu Phase II Development Project for sale and the Yalong Bayview Development Project for rental and/or time share and/or resort facilities, subject to all governmental and regulatory approvals having been obtained.

The golf club in Panyu has commenced business in 1995. It has a golf course and a club-house equipped with resort facilities including guest rooms, food and beverage outlets, fitness centre and sauna. The application for the development of villas of the Panyu Phase II Development Project is in progress. The preliminary plan is to build 70 to 80 luxurious villas. The development of apartments is still in the initial planning stage.

The golf course of the golf club in Sanya has commenced business in 2004. Upon full operation of the golf club which is expected to be in late 2006, it will also operate a club-house with resort facilities including food and beverage outlets, fitness centre and

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sauna. The development of villas on Yalong Bayview Land is in the conceptual design stage, and the development of condominiums/apartments is still in the initial planning stage.

The major recurring sources of turnover of Everight Group include green fee, membership subscription, food and beverage sale and accommodation and service income. For each of the two years ended 31st December, 2004 and 2005 respectively, around 20% and 15% of total turnover was attributed to sale of properties. An accountants' report of Everight Group is set out in Appendix II to this circular for the purpose of providing detailed financial information of Everight Group for the three years ended 31st December, 2005 to the Shareholders. Although the preparation of the accountants' report of Everight Group involves certain critical judgements and estimation uncertainty as described in note 4 to the accountants' report of Everight Group, the Directors are of the view that such judgements and estimation were made based on the best knowledge and estimation of the directors of Everight Group with reference to the normal business practice and operations of Everight Group.

Set out below is the audited consolidated financial information of Everight Group for each of the two years ended 31st December, 2004 and 2005 prepared in accordance with the HK GAAP extracted from the accountants' report of Everight Group as set out in Appendix II to this circular:

	Year ended 31st December,	
	2005	2004
	<i>HK\$ million</i>	<i>HK\$ million</i>
	(Audited)	(Restated)
Turnover	61.3	46.8
(Loss)/profit before taxation	(5.9)	5.6
(Loss)/profit after taxation and minority interests	(2.9)	0.3
	As at 31st December,	
	2005	2004
	<i>HK\$ million</i>	<i>HK\$ million</i>
	(Audited)	(Restated)
Total assets	340.5	297.2
Net assets	179.1	132.0

After Completion, Everight will become an indirect wholly-owned subsidiary of the Company. The golfing and related businesses currently operated by Everight Group will become one of the principal businesses of the Enlarged Group.

REASONS FOR THE ACQUISITION

The Company is an investment holding company, and its subsidiaries are principally engaged in property development and investment, trading of motor cycles and spare parts, sale and manufacturing of "Tung Fong Hung" branded Chinese pharmaceutical and health products, production and distribution of western pharmaceutical products and securities investment.

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As disclosed in the Company's circulars dated 6th January, 2005 and 23rd May, 2005 in relation to the issue of new Shares and the 2005 Notes respectively, a sum of approximately HK\$1,160 million, before expenses, was raised. By leveraging on the Group's extensive experience in the property business, the Group is open for property investment opportunities and has decided to further expand its investment properties portfolio in high quality residential and commercial buildings. The Board has been actively seeking property investment opportunities and considers that the Acquisition is in line with the Group's business strategy.

The Acquisition represents an attractive opportunity to the Group as it enables the Group to diversify into the PRC property market and to develop luxurious residential villas in Guangzhou, an affluent city with increasing demand for quality residential units. The Acquisition also enables the Group to further expand its investment portfolio into hotel and resort facility through the Yalong Bayview Development Project in Sanya, which is one of the most preferred spots for leisure travelling in the PRC. Furthermore, with golfing becoming a popular activity, the operations of golf club, hotel and resort facilities will provide the Group with an additional growing source of revenue.

The management of the Company has extensive experience in property development and hotel operations. Mr. Cheung Hon Kit, the Chairman of the Board and an executive Director, is the managing director of Wing On Travel (Holdings) Limited which operates certain hotels in Hong Kong and the PRC. It is the Board's intention that the management of the Company will be in charge of the overall strategic planning and development of Everight Group. The daily operation including the golf business will be run by the existing staff of Everight Group. In addition, the Directors consider that the Service Agreements with Mr. Lai and Mr. Chan will secure a smooth transition of management after the Completion and enable the Company to benefit from the established local networking of Mr. Lai and Mr. Chan in respect of the PRC operations of Everight Group.

In view of the above, the Board considers the entering into of the Acquisition Agreement (including the transactions contemplated thereunder) is in the interest of the Company and the Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable.

FINANCIAL EFFECTS OF THE ACQUISITION

Earnings

For the year ended 31st March, 2005, the audited net profit after taxation of the Group was approximately HK\$9.9 million. On adoption of new and revised accounting standards issued by the Hong Kong Institute of Certified Public Accountants applicable to accounting periods beginning on or after 1st January, 2005 which require retrospective restatement of financial statements issued in prior years, the above net profit after taxation of the Group for the year ended 31st March, 2005 will be restated to approximately HK\$12.3 million. According to the accountants' report of Everight Group as set out in Appendix II to this circular, loss from continuing operations was approximately HK\$12.6 million for the year ended 31st December, 2005.

As set out in the unaudited pro forma combined income statement of the Enlarged Group, the Group would fully account for the profit or loss after taxation of Everight Group upon Completion. The issue of the Notes will increase the finance costs of the

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Group by approximately HK\$3.0 million assuming an effective interest of 6.0% per annum. In addition, goodwill of approximately HK\$53.8 million will arise on the Acquisition. Such amount will be subject to periodical testing of impairment loss, which, if any, will be charged to the income statement in the period it arises.

Net asset value

As extracted from the interim report of the Company for the six months ended 30th September, 2005, the unaudited consolidated total assets and total liabilities (including minority interests) of the Company as at 30th September, 2005 were approximately HK\$1,441.8 million and HK\$1,030.9 million respectively. The unaudited net asset value attributable to the Shareholders was approximately HK\$410.9 million.

As set out in the unaudited pro forma combined balance sheet of the Enlarged Group contained in Appendix III to this circular, assuming Completion had taken place on 30th September, 2005, the unaudited pro forma combined total assets and total liabilities (including minority interests) of the Enlarged Group would be approximately HK\$1,764.1 million and HK\$1,342.5 million respectively. The unaudited pro forma combined net assets of the Enlarged Group attributable to the Shareholders would be approximately HK\$421.6 million.

Gearing

As extracted from the interim report of the Company for the six months ended 30th September, 2005, the gearing ratio of the Group, calculated with reference to the total of bank loans of HK\$50.9 million and the fair value of the liability component of convertible note payables of HK\$901.7 million, setoff with the bank and cash balances of HK\$672.5 million, and the Group's shareholders' funds of HK\$410.9 million, was approximately 0.7 at 30th September, 2005.

Based on the unaudited pro forma combined balance sheet of the Enlarged Group contained in Appendix III to this circular, assuming Completion had taken place on 30th September, 2005, the gearing ratio of the Enlarged Group, calculated with reference to the total of bank and other borrowings of HK\$121.9 million and the fair value of the liability component of convertible note payables of HK\$950.9 million, setoff with the bank and cash balances of HK\$597.1 million and the Group's shareholders' funds of HK\$421.6 million was approximately 1.1 at 30th September, 2005.

CHANGE OF COMPANY NAME

The Directors propose that the English name of the Company be changed from "Cheung Tai Hong Holdings Limited" to "Macau Prime Properties Holdings Limited"; and the adoption of the Chinese name "澳門祥泰地產集團有限公司" in lieu of "祥泰行集團有限公司" for identification purpose so as to reflect the existing business of the Company and the focus of the Group's deployment of resources in the future.

The proposed change of name of the Company will be subject to (i) approval of the Shareholders by the passing of a special resolution at the SGM; and (ii) the Registrar of Companies in Bermuda granting approval for the change of name of the Company, and shall take effect from the date on which the approval for the change of name of the Company by the Registrar of Companies in Bermuda having been granted. Upon the proposed change of name of the Company becoming effective, the Company will carry out the necessary filing procedures with the Registrar of Companies in Bermuda and the Registrar of Companies in Hong Kong.

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The proposed change of name of the Company will not affect any of the rights of the existing Shareholders. All existing share certificates in issue bearing the present name of the Company will continue to be evidence of title to the Shares and will be valid for trading, settlement and delivery for the same number of Shares after the proposed change of name. Any issue of share certificates thereafter will be in the new name of the Company. There will be no special arrangement for free exchange of the existing share certificates of the Company for new share certificates printed in the new name of the Company. An announcement will be made should the proposed change of name of the Company become effective.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE-MONTH PERIOD IMMEDIATELY BEFORE THE DATE OF THIS CIRCULAR

On 23rd February, 2005, the Company raised approximately HK\$155 million, net of expenses, by issuing 150,000,000 new Shares and the 2005 February Note. On 11th August, 2005, the Company further raised approximately HK\$989 million, net of expenses, by issuing the 2005 August Note. Set out below are the details of the intended and actual use of the proceeds of the aforesaid fund raising exercises:

Date of completion	Event	Net proceeds	Stated intended use of proceeds	Actual use of proceeds up to the Latest Practicable Date
23rd February, 2005	Issue of 150,000,000 new Shares and the 2005 February Note	Approximately HK\$155 million	(i) HK\$35 million of net proceeds would be used for the repayment of certain short-term borrowings;	(i) approximately HK\$30 million were used for repayment of certain short-term borrowings;
			(ii) approximately HK\$90 million would be reserved for expansion of the Group's investment properties portfolio when opportunities arise; and	(ii) – HK\$10 million were paid as refundable earnest money in respect of a possible acquisition of interest in certain land in Macau, which the Company will continue negotiating with the vendor on terms;
			(iii) the remaining balance of approximately HK\$30 million would be used for the additional general working capital of the Company.	– HK\$5 million were paid as deposit for the Acquisition Agreement; and (iii) approximately HK\$18 million of the net proceeds were used as general working capital of the Group.

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Date of completion	Event	Net proceeds	Stated intended use of proceeds	Actual use of proceeds up to the Latest Practicable Date
11th August, 2005	Subscription and placing of the 2005 August Note	Approximately HK\$989 million	Expanding the investment properties portfolio of the Company	HK\$240 million will be applied as shareholder's loan to Orient Town Limited ("Orient Town"), details of which have been set out in the announcement of the Company dated 3rd April, 2006 in relation to the acquisition of interest in Orient Town (the "Orient Town Acquisition"); and HK\$140 million were paid as a refundable earnest money with a view of facilitating possible acquisitions of ownership and interest in certain properties in the PRC.

Of the HK\$701 million remaining balance from the aforesaid fund raising exercises, HK\$75 million will be applied to settle the cash portion of the Consideration. The remaining balance of approximately HK\$626 million, a majority of which will be applied as shareholder's loan to Orient Town pursuant to the Orient Town Acquisition. In the event that any of the aforesaid possible acquisitions materialise in the future, such amount will be used to finance them to the extent required. Should any of the aforesaid possible acquisitions not materialise in the future, the relevant earnest money will be refunded to the Company.

SGM

The Acquisition, when aggregated with the Shareholder's Loan(s), constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to Shareholders' approval at the SGM. To the best of the Directors' knowledge, information and belief, and after having made reasonable enquiries, as at the Latest Practicable Date, no Shareholder has any material interest in the Acquisition, and therefore no Shareholder will be required to abstain from voting at the SGM.

Set out on pages 191 to 193 of this circular is a notice of the SGM to be held at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, on Tuesday, 23rd May, 2006 at 11:00 a.m., at which an ordinary resolution and a special resolution will be proposed and, if consider appropriate, passed to approve the Acquisition Agreement and the transactions contemplated thereunder, and the proposed change of name of the Company respectively.

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Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of the Company, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to Bye-law 66 of the Bye-laws of the Company, a resolution put to the vote at a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the designated stock exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of the meeting; or
- (b) by at least three members present in person or, in case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any member or members present in person or, in case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by any member or members present in person or, in case of a member 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; or
- (e) if required by the rules of the designated stock exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting, and if on a show of hand a meeting votes in the opposite manner to that instructed in those proxies, provided that if it is apparent from the total proxies held that a vote taken on a poll shall not reverse the vote taken on a show of hands, then the Director or Directors shall not be required to demand a poll.

In the event that a poll is demanded, the results of the poll will be published by way of an announcement in the local newspapers on the business day following the meeting in accordance with the requirements of the Listing Rules.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors consider that the terms and conditions of the Acquisition Agreement are fair and reasonable and the entering of the Acquisition Agreement and the proposed change of name of the Company are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the respective resolutions to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder and the proposed change of name of the Company.

ADDITIONAL INFORMATION

Your attention is drawn to the financial information relating to the Group and Everight Group and other information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Cheung Tai Hong Holdings Limited
Cheung Hon Kit
Chairman

1. FINANCIAL SUMMARY

Set out below is a summary of the audited financial information of the Group for the three years ended 31st March, 2005, the unaudited financial information for the six months ended 30th September, 2005 and the six months ended 30th September, 2004 extracted from the relevant annual reports and interim reports of the Company:

	For the year ended 31st March,			For the six months ended 30th September,	
	2005	2004	2003	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Results					
Turnover	379,396	63,514	41,276	426,380	175,398
Cost of sales	(259,478)	(55,429)	(38,742)	(370,651)	(125,505)
Allowance for properties held for sale	-	(6,006)	-	-	-
Gross profit	<u>119,918</u>	<u>2,079</u>	<u>2,534</u>	<u>55,729</u>	<u>49,893</u>
Profit (loss) from operations	19,140	(22,236)	(59,122)	(7,001)	3,460
Finance costs	(7,379)	(15,585)	(5,156)	(9,940)	(4,011)
Loss on disposal of discontinuing operations	-	-	(713)	-	-
Gain (Loss) on disposal of subsidiaries	-	30	(341)	-	-
Profit (loss) before taxation	<u>11,761</u>	<u>(37,791)</u>	<u>(65,332)</u>	<u>(16,941)</u>	<u>(551)</u>
Taxation	(1,823)	-	-	(819)	(466)
Profit (loss) before minority interests	9,938	(37,791)	(65,332)	(17,760)	(1,017)
Minority interests	-	8,179	13,776	-	-
Profit (loss) for the year	<u>9,938</u>	<u>(29,612)</u>	<u>(51,556)</u>	<u>(17,760)</u>	<u>(1,017)</u>
Earnings (loss) per share					
- Basic	<u>6.2 cents</u>	<u>(25.0 cents)</u>	<u>(45.0 cents)</u>	<u>(4.4 cents)</u>	<u>(0.8 cents)</u>
- Diluted	<u>5.0 cents</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	As at 31st March,			As at 30th September,	
	2005	2004	2003	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Assets and liabilities					
Non-current assets	89,648	8,580	19,360	77,944	92,784
Current assets	388,865	223,681	329,518	1,363,781	251,510
Total assets	<u>478,513</u>	<u>232,261</u>	<u>348,878</u>	<u>1,441,725</u>	<u>344,294</u>
Current liabilities	139,162	102,085	193,078	126,646	184,140
Non-current liabilities	95,744	–	–	903,299	30,112
Total liabilities	<u>234,906</u>	<u>102,085</u>	<u>193,078</u>	<u>1,029,945</u>	<u>214,252</u>
Net assets	<u>243,607</u>	<u>130,176</u>	<u>155,800</u>	<u>411,780</u>	<u>130,042</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST MARCH, 2005

The following is the reproduction of the text of the audited consolidated financial statements of the Group together with the accompanying notes contained in pages 19 to 72 of the annual report of the Company for the year ended 31st March, 2005:

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the year ended	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	379,396	63,514
Cost of sales		(259,478)	(55,429)
Allowance for properties held for sale		–	(6,006)
		<hr/>	<hr/>
Gross profit		119,918	2,079
Other operating income		2,139	7,267
Gain (loss) on disposal of investments in securities		30	(13,059)
Doubtful debts (provided) recovered		(1,729)	20
Distribution costs		(57,942)	–
Administrative expenses		(34,215)	(11,383)
Other operating expenses		(567)	–
Amortisation of goodwill		(1,051)	–
Unrealised holding (loss) gain on other investments		(4,226)	1,640
Loss on disposal of investment properties		(3,217)	–
Deficit arising on revaluation of investment properties		–	(8,800)
		<hr/>	<hr/>
Profit (loss) from operations	5	19,140	(22,236)
Finance costs	6	(7,379)	(15,585)
Gain on disposal of subsidiaries		–	30
		<hr/>	<hr/>
Profit (loss) before taxation		11,761	(37,791)
Taxation	8	(1,823)	–
		<hr/>	<hr/>
Profit (loss) before minority interests		9,938	(37,791)
Minority interests		–	8,179
		<hr/>	<hr/>
Profit (loss) for the year		<u>9,938</u>	<u>(29,612)</u>
Earnings (loss) per share	9		
– Basic		<u>6.2 cents</u>	<u>(25.0 cents)</u>
– Diluted		<u>5.0 cents</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

		At 31st March,	
		2005	2004
	Notes	HK\$'000	HK\$'000
Non-current assets			
Investment properties	10	–	8,200
Property, plant and equipment	11	65,748	380
Intangible assets	13	2,015	–
Goodwill	14	21,885	–
Interest in an associate	15	–	–
		<u>89,648</u>	<u>8,580</u>
Current assets			
Inventories	16	59,280	–
Properties held for sale, at net realisable value		58,536	116,846
Investments in securities	17	10,289	16,388
Loan receivables	18	31,500	–
Debtors, deposits and prepayments	19	38,280	10,311
Pledged bank deposits		3,000	–
Bank balances and cash		187,980	80,136
		<u>388,865</u>	<u>223,681</u>
Current liabilities			
Creditors and accrued charges	20	62,952	7,641
Tax payable		1,041	–
Obligations under a finance lease			
– due within one year	21	23	–
Promissory note payables	22	13,000	–
Bank and other borrowings			
– due within one year	23	62,146	94,444
		<u>139,162</u>	<u>102,085</u>
Net current assets		<u>249,703</u>	<u>121,596</u>
Total assets less current liabilities		<u>339,351</u>	<u>130,176</u>

		At 31st March,	
		2005	2004
	Notes	HK\$'000	HK\$'000
Non-current liabilities			
Obligations under a finance lease			
– due after one year	21	119	–
Bank and other borrowings			
– due after one year	23	5,625	–
Convertible note payables	25	90,000	–
		<u>95,744</u>	<u>–</u>
		<u>243,607</u>	<u>130,176</u>
Capital and reserves			
Share capital	26	3,610	1,277
Reserves		<u>239,997</u>	<u>128,899</u>
		<u>243,607</u>	<u>130,176</u>

BALANCE SHEET

		At 31st March,	
		2005	2004
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	11	3	4
Interests in subsidiaries	12	104,428	65,535
		<u>104,431</u>	<u>65,539</u>
Current assets			
Debtors and prepayments		221	1,393
Loan receivable	18	10,500	–
Bank balances and cash		153,190	383
		<u>163,911</u>	<u>1,776</u>
Current liabilities			
Creditors and accrued charges		1,601	717
Promissory note payables	22	6,500	–
Other borrowings – due within one year	23	7,940	600
		<u>16,041</u>	<u>1,317</u>
Net current assets		<u>147,870</u>	<u>459</u>
Total assets less current liabilities		<u>252,301</u>	<u>65,998</u>
Non-current liability			
Convertible note payables	25	90,000	–
		<u>162,301</u>	<u>65,998</u>
Capital and reserves			
Share capital	26	3,610	1,277
Reserves	28	158,691	64,721
		<u>162,301</u>	<u>65,998</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2005

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Other reserve HK\$'000 (note)	Special reserve HK\$'000 (note)	Translation reserve HK\$'000	(Deficit) accumulated profit HK\$'000	Total HK\$'000
At 1st April, 2003	234,375	334,999	646	-	(8,908)	-	(403,500)	157,612
Capital reorganisation								
- capital reduction (note 26(1a))	(233,203)	-	-	233,203	-	-	-	-
- cancellation of share premium (note 26(1d))	-	(334,999)	-	334,999	-	-	-	-
- set-off against deficit (note 26(1))	-	-	-	(535,894)	-	-	535,894	-
Exercise of share options (note 26(2))	105	2,071	-	-	-	-	-	2,176
Loss for the year	-	-	-	-	-	-	(29,612)	(29,612)
At 31st March, 2004	1,277	2,071	646	32,308	(8,908)	-	102,782	130,176
Exchange differences arising on operations outside Hong Kong and gain not recognised in the income statement	-	-	-	-	-	627	-	627
Exercise of share options (note 26(2))	12	227	-	-	-	-	-	239
Issue of shares (note 26(3))	1,750	78,500	-	-	-	-	-	80,250
Conversion of convertible notes (note 26(4))	571	24,429	-	-	-	-	-	25,000
Expenses incurred in connection with issue of shares	-	(2,623)	-	-	-	-	-	(2,623)
Profit for the year	-	-	-	-	-	-	9,938	9,938
At 31st March, 2005	<u>3,610</u>	<u>102,604</u>	<u>646</u>	<u>32,308</u>	<u>(8,908)</u>	<u>627</u>	<u>112,720</u>	<u>243,607</u>

Note: Other reserve of the Group represents net balance from capital reduction, cancellation of share premium and set-off against the deficit pursuant to the capital reorganisation on 15th April, 2003.

The special reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal amount of the share capital of the Company issued as consideration under the group reorganisation in 1994.

CONSOLIDATED CASH FLOW STATEMENT

	For the year ended	
	31st March,	
	2005	2004
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit (loss) from operations	19,140	(22,236)
Adjustments for:		
Allowance for properties held for sale	–	6,006
Allowance for amount due from associate	17	–
Amortisation of intangible assets	71	–
Amortisation of goodwill	1,051	–
Interest income	(595)	(5,720)
Depreciation and amortisation of property, plant and equipment	8,836	183
Doubtful debts provided (recovered)	1,729	(20)
Loss (gain) on disposal of property, plant and equipment	66	(1,053)
Deficit arising on revaluation of investment properties	–	8,800
(Gain) loss on disposal of investments in securities	(30)	13,059
Loss on disposal of investment properties	3,217	–
Write-off of intangible assets	645	–
Unrealised holding loss (gain) on other investments	4,226	(1,640)
Release of negative goodwill	(2,224)	(747)
Operating cash flows before movements in working capital	36,149	(3,368)
Increase in amount due from associate	(17)	–
Decrease in inventories	1,073	–
Decrease in properties held for sale	60,534	41,144
Increase in debtors, deposits and prepayments	(4,514)	(884)
Increase (decrease) in creditors and accrued charges	4,900	(5,431)
Cash generated from operations	98,125	31,461
Overseas taxation paid	(768)	–
Interest paid	(4,261)	(16,899)
Loan arrangement fees paid	–	(1,800)
NET CASH FROM OPERATING ACTIVITIES	93,096	12,762

	Notes	For the year ended 31st March,	
		2005 HK\$'000	2004 HK\$'000
INVESTING ACTIVITIES			
Proceeds from disposal of investment properties		4,983	–
Proceeds from disposal of investments in securities		1,903	10,376
Interest received		296	5,720
Proceeds from disposal of property, plant and equipment		476	2,850
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	29	–	10
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	30	(22,861)	–
Increase in loan receivables		(31,500)	–
Purchase of property, plant and equipment		(3,081)	–
Increase in pledged bank deposits		(3,000)	–
Development cost incurred		(1,467)	–
Acquisition of investments in securities		–	(5,170)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		<u>(54,251)</u>	<u>13,786</u>
FINANCING ACTIVITIES			
Proceeds from issue of convertible notes		100,000	–
New bank and other borrowings raised		96,225	59,016
Proceeds from issue of shares		80,489	2,176
New loans from minority shareholders of a subsidiary		–	15,309
Repayment of bank and other borrowings		(205,596)	(143,025)
Expenses paid in connection with issue of shares		(2,623)	–
Repayment of obligations under a finance lease		(16)	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		<u>68,479</u>	<u>(66,524)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		107,324	(39,976)
CASH AND CASH EQUIVALENTS AT 1ST APRIL		80,136	120,112
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>520</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT 31ST MARCH,			
represented bank balances and cash		<u>187,980</u>	<u>80,136</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 37.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In year 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries and associates at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of associates is included with the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

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

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

Interests in subsidiaries

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

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net asset of the associate, less any identified impairment losses.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Services income is recognised when services are provided.

Income from properties held for sale is recognised on the execution of binding sales agreement.

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

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

Profits and losses arising on trading in securities are recognised on a trade-date basis.

Dividend income from investments is recognised when the right to receive payment has been established.

Investment properties

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

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the

deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a surplus subsequently arises, the surplus is credited to the income statement to the extent of the deficit previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the term of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off items of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use rights	Over the terms of the relevant right
Leasehold land and leasehold improvements	Over the terms of the lease
Buildings	4% or over the remaining terms of the relevant lease, if shorter
Plant and machineries	5% – 15%
Furniture, fixtures and equipment	10% – 33 ¹ / ₃ %
Motor vehicles	10% – 20%

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds less estimated selling expenses.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses are charged to the income statement on a straight line basis over the relevant lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Loan arrangement fees represent expenses incurred in obtaining long-term secured bank loan facilities. Such expenses are deferred and amortised to the income statement over the repayment term of the loan on a straight line basis to provide a constant periodic rate of charge.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

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

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

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

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

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

Retirement benefit costs

The pension costs charged to the income statement represent the contributions payable in the current year to the Group's Mandatory Provident Fund Scheme and defined contribution retirement scheme.

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties, less returns and allowance and is summarised as follows:

	2005 HK\$'000	2004 HK\$'000
Sale of properties	91,609	47,276
Trading of motorcycles	11,737	15,864
Medicine and health food	275,952	–
Rental income	98	374
	<u>379,396</u>	<u>63,514</u>

The outgoings arising from rental income were negligible in both years.

5. PROFIT (LOSS) FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	1,310	653
– underprovision in previous year	75	249
	<u>1,385</u>	<u>902</u>
Staff costs, including directors' emoluments	40,992	3,933
Retirement benefits scheme contributions, net of forfeited contributions of HK\$65,000 (2004: HK\$77,000)	1,768	23
	<u>42,760</u>	<u>3,956</u>
Total staff costs	42,760	3,956
Less: Amount capitalised in intangible assets	(10)	–
	<u>42,750</u>	<u>3,956</u>
Cost of inventories recognised as an expense	241,700	55,429
Depreciation and amortisation of property, plant and equipment:		
– assets owned by the Group	8,810	183
– an asset held under a finance lease	26	–
Amortisation of intangible assets	71	–
Allowance for properties held for sale	–	6,006
Allowance for amount due from associate	17	–
Loss on disposal of property, plant and equipment	66	–
and after crediting:		
Gain on disposal of property, plant and equipment	–	(1,053)
Interest income	(595)	(5,720)
Release of negative goodwill (included in cost of sales)	(2,224)	(747)
	<u>(2,819)</u>	<u>(7,520)</u>

6. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank and other borrowings wholly repayable within five years	5,677	15,105
Interest on obligations under a finance lease	14	–
Interest on convertible notes wholly repayable within five years	368	–
Loan arrangement fees	1,320	480
	<u>7,379</u>	<u>15,585</u>

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

A. Directors' emoluments

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	96	20
	<u>96</u>	<u>20</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	268	2,574
Retirement benefits scheme contributions	2	39
	<u>270</u>	<u>2,613</u>
	<u>366</u>	<u>2,633</u>

The directors' emoluments were within the following bands:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	8	7
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>8</u>	<u>8</u>

During the year ended 31st March, 2005, one director waived emoluments of HK\$240,000. No directors waived any emoluments during the year ended 31st March, 2004.

B. Highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2004: three) were directors of the Company whose emoluments are included in (A) above.

The emoluments of the remaining four (2004: two) individuals were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries and other benefits	1,535	486
Retirement benefits scheme contributions	<u>57</u>	<u>22</u>
	<u><u>1,592</u></u>	<u><u>508</u></u>

Their emoluments were below HK\$1,000,000.

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

8. TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	5	–
Taxation in other jurisdictions	<u>1,818</u>	<u>–</u>
	<u><u>1,823</u></u>	<u><u>–</u></u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

Taxation arising in other jurisdictions is calculated at rates prevailing in the relevant jurisdiction.

During the year ended 31st March, 2004, no provision for Hong Kong Profits Tax was made for the Group as the Company and its subsidiaries had no assessable profit for that year.

Details of deferred taxation are set out in note 24.

The tax charge for the year can be reconciled to the profit (loss) per the income statement as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit (loss) before taxation	<u>11,761</u>	<u>(37,791)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	2,058	(6,613)
Tax effect of expenses not deductible for tax purpose	3,653	673
Tax effect of income not taxable for tax purpose	(1,167)	(1,406)
Tax effect of deferred tax asset not recognised	4,805	7,379
Utilisation of tax losses previously not recognised	(7,020)	(33)
Effect of tax exemptions granted to subsidiaries in the People's Republic of China (the "PRC")	(841)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>335</u>	<u>–</u>
Taxation for the year	<u><u>1,823</u></u>	<u><u>–</u></u>

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2005 HK\$'000	2004 HK\$'000
Earnings:		
Profit (loss) for the year and earnings (loss) for the purpose of basic earnings (loss) per share	9,938	<u>(29,612)</u>
Effect of dilutive potential ordinary shares		
– Interest on convertible notes	<u>304</u>	
Earnings (loss) for the purpose of diluted earnings (loss) per share	<u>10,242</u>	
Number of shares:		
Weighted average number of shares for the purpose of basic earnings (loss) per share	160,809,612	<u>118,228,175</u>
Effect of dilutive potential ordinary shares		
– share options	26,804	
– convertible notes	<u>42,356,597</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>203,193,013</u>	

No diluted loss per share was presented for the year ended 31st March, 2004 because the exercise of the share options would result in a decrease of net loss per share.

10. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st April, 2004	8,200
Disposals	<u>(8,200)</u>
At 31st March, 2005	<u>–</u>

During the year ended 31st March, 2005, the Group disposed of all of its investment properties at a consideration of HK\$4,983,000. The loss arising on disposal amounting to HK\$3,217,000 had been charged to the consolidated income statement.

The Group's investment properties were situated in Hong Kong and were held under medium term leases.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machineries HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st April, 2004	-	-	-	717	238	955
Currency realignment	-	207	-	82	30	319
Arising on acquisition of subsidiaries	4,186	46,769	14,749	4,385	1,460	71,549
Additions	-	1,743	19	511	808	3,081
Disposals	-	(1,581)	(353)	(378)	(511)	(2,823)
At 31st March, 2005	<u>4,186</u>	<u>47,138</u>	<u>14,415</u>	<u>5,317</u>	<u>2,025</u>	<u>73,081</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st April, 2004	-	-	-	460	115	575
Currency realignment	-	124	-	64	15	203
Provided for the year	85	6,208	834	1,379	330	8,836
Eliminated on disposals	-	(1,509)	(70)	(371)	(331)	(2,281)
At 31st March, 2005	<u>85</u>	<u>4,823</u>	<u>764</u>	<u>1,532</u>	<u>129</u>	<u>7,333</u>
NET BOOK VALUES						
At 31st March, 2005	<u>4,101</u>	<u>42,315</u>	<u>13,651</u>	<u>3,785</u>	<u>1,896</u>	<u>65,748</u>
At 31st March, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>257</u>	<u>123</u>	<u>380</u>

The leasehold land and buildings of the Group were held under medium-term land use rights in the PRC.

At 31st March, 2005, the net book values of property, plant and equipment of the Group included an amount of approximately HK\$127,000 (2004: Nil) in respect of an asset held under a finance lease.

At 31st March, 2005, the property, plant and equipment of the Group amounting to approximately HK\$11,959,000 (2004: Nil) were pledged to a bank to secure general banking facilities granted to the Group.

	Furniture and fixtures <i>HK\$'000</i>
THE COMPANY	
COST	
At 1st April, 2004 and 31st March, 2005	6
DEPRECIATION	
At 1st April, 2004	2
Provided for the year	1
At 31st March, 2005	3
NET BOOK VALUES	
At 31st March, 2005	3
At 31st March, 2004	4

12. INTERESTS IN SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, carrying value	183,277	183,277
Amounts due from subsidiaries	646,247	607,354
	829,524	790,631
<i>Less: Impairment losses</i>	<i>(725,096)</i>	<i>(725,096)</i>
	<u>104,428</u>	<u>65,535</u>

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the holding company of the Group under the group reorganisation in 1994, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

For the year ended 31st March, 2004, an impairment loss of HK\$88,926,000 had been recognised in respect of the investment in and advances to subsidiaries to their recoverable amounts.

Particulars of the principal subsidiaries at 31st March, 2005 are set out in note 37.

13. INTANGIBLE ASSETS

HK\$'000

THE GROUP**COST**

Arising on acquisition of subsidiaries	1,264
Additions	1,467
Written-off	(645)

At 31st March, 2005	<u>2,086</u>
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AMORTISATION

Provided for the year and at 31st March, 2005	<u>71</u>
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NET BOOK VALUE

At 31st March, 2005	<u><u>2,015</u></u>
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The amount represents the development costs incurred on Chinese medicines and pharmaceutical products, and is deferred and amortised, using the straight-line method, over a period of five years from date of commencement of commercial operation.

During the year, the directors of the Company reviewed the net recoverable amount of the Group's development costs in view of the current technological development and economic conditions. The technological development of certain drug manufacturing techniques have been prolonged and may no longer warrant future economic benefits adequate to support current capitalisation of the development costs. As a result, the carrying amount of the related development costs has been fully written off during the year.

In the opinion of the directors of the Company, the remaining intangible assets are worth at least their carrying amount at the balance sheet date.

At 31st March, 2005, other than the amount of HK\$439,000 which related to products in stage of development, the remaining intangible assets had been put into commercial use.

14. GOODWILL

HK\$'000

THE GROUP**COST**

Arising on acquisition of subsidiaries and at 31st March, 2005	22,936
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AMORTISATION

Charge for the year and balance at 31st March, 2005	<u>1,051</u>
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NET BOOK VALUE

At 31st March, 2005	<u><u>21,885</u></u>
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The amortisation period adopted for goodwill is 20 years.

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Amount due from associate	17	–
Less: Allowance	(17)	–
	<u>–</u>	<u>–</u>

The amount due from associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the Group will not demand repayment within twelve months from the balance sheet date and the amount is therefore shown as non-current.

At 31st March, 2005, the Group had interest in the following associate:

Name of associate	Form of business structure	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of issued share capital indirectly held by the Company	Principal activity
Jean-Bon Pharmaceutical Technology Company Limited	Incorporated	Hong Kong	HK\$2 ordinary shares	50%	Inactive

16. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	16,792	–
Work in progress	1,588	–
Finished goods	40,900	–
	<u>59,280</u>	<u>–</u>

Included above are finished goods of HK\$38,360,000 (2004: Nil) carried at net realisable value.

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	Other investments	
	2005 HK\$'000	2004 HK\$'000
Equity securities:		
Listed in Hong Kong, at market value	<u>10,289</u>	<u>16,388</u>

18. LOAN RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal	<u>31,500</u>	<u>–</u>	<u>10,500</u>	<u>–</u>

The loans are unsecured, bear interest at Hong Kong prime rate plus 2% per annum and are repayable on demand.

19. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit period ranging from 0 to 30 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet date:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 – 60 days	16,336	4,799
61 – 90 days	<u>11,336</u>	<u>–</u>
Other debtors, deposits and prepayments	27,672	4,799
	<u>10,608</u>	<u>5,512</u>
	<u>38,280</u>	<u>10,311</u>

20. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
0 – 60 days	20,206	488
61 – 90 days	20,037	–
Over 90 days	<u>4,470</u>	<u>1,283</u>
Other creditors and accrued expenses	44,713	1,771
	<u>18,239</u>	<u>5,870</u>
	<u>62,952</u>	<u>7,641</u>

21. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Amount payable under a finance lease:				
Within one year	36	–	23	–
In the second to fifth year inclusive	<u>122</u>	<u>–</u>	<u>119</u>	<u>–</u>
	158	–	142	–
<i>Less: Future finance charges</i>	<u>(16)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u><u>142</u></u>	<u><u>–</u></u>	142	–
<i>Less: Amount due within one year shown under current liabilities</i>			<u>(23)</u>	<u>–</u>
Amount due after one year			<u><u>119</u></u>	<u><u>–</u></u>

It is the Group's policy to lease a motor vehicle under a finance lease. The lease term is approximately three years.

For the year ended 31st March, 2005, the effective borrowing rate is 7.5%. Interest rate was fixed at the contract date.

The obligations under a finance lease of the Group are secured by the lessor's charge over the leased asset.

22. PROMISSORY NOTE PAYABLES

The promissory note payables of the Group and the Company are unsecured, bear interest at 5.5% per annum and are repayable on 6th May, 2005.

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, secured	54,207	87,844	–	–
Other borrowings, unsecured	13,564	6,600	7,940	600
	<u>67,771</u>	<u>94,444</u>	<u>7,940</u>	<u>600</u>
The maturity profile of the above loans and borrowings is as follows:				
Within one year or on demand	62,146	94,444	7,940	600
More than one year, but not exceeding two years	5,625	–	–	–
	<u>67,771</u>	<u>94,444</u>	<u>7,940</u>	<u>600</u>
Less: Amount due within one year shown under current liabilities	(62,146)	(94,444)	(7,940)	(600)
Amount due after one year	<u>5,625</u>	<u>–</u>	<u>–</u>	<u>–</u>

Included in other borrowings of the Group were HK\$7,940,000 and HK\$5,624,000 which bear interest at 12% per annum and at Hong Kong prime rate plus 2% per annum, respectively.

The other borrowing of the Company bears interest at 12% per annum.

24. DEFERRED TAXATION

The followings are the major deferred tax liabilities (asset) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Deferred tax development costs	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2003 and 31st March, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
At 31st March, 2005	<u>2,533</u>	<u>353</u>	<u>(2,886)</u>	<u>–</u>

At 31st March, 2005, the Group has unused tax losses of HK\$679,816,000 (2004: HK\$538,966,000) available for offset against future profits and deductible temporary differences associated with property, plant and equipment of HK\$216,000 (2004: associated with investment properties and property, plant and equipment of HK\$25,504,000). A deferred tax asset has been recognised in respect of HK\$16,492,000 (2004: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$663,324,000 (2004: HK\$538,966,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

25. CONVERTIBLE NOTE PAYABLES

	THE GROUP AND THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Principal	<u>90,000</u>	<u>–</u>

On 6th May, 2004 upon acquisition of subsidiaries as set out in note 30, the Company issued HK\$15 million 2% unsecured convertible notes due 2006 at conversion price of HK\$0.45. The HK\$15 million 2% convertible notes due 2006 were converted into 33,333,331 ordinary shares of HK\$0.01 each in the capital of the Company at conversion price of HK\$0.45 as set out in note 26(4).

On 23rd February, 2005, the Company issued HK\$100 million 2% unsecured convertible notes due 2008 at conversion price of HK\$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK\$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the year, HK\$10 million 2% unsecured convertible notes due 2008 were converted into 23,809,520 ordinary shares of HK\$0.01 each in the capital of the Company at conversion price of HK\$0.42 as set out in note 26(4). The remaining HK\$90 million 2% unsecured convertible notes due 2008 were outstanding at 31st March, 2005.

26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1st April, 2003, at HK\$0.10 each	4,000,000,000	400,000
Capital reorganisation		
– Share sub-division (<i>note 1b</i>)	796,000,000,000	–
– Share consolidation (<i>note 1c</i>)	<u>(760,000,000,000)</u>	<u>–</u>
At 31st March, 2004 and 31st March, 2005, at HK\$0.01 each	<u>40,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 1st April, 2003, at HK\$0.10 each	2,343,753,121	234,375
Capital reorganisation		
– Capital reduction (<i>note 1a</i>)	–	(233,203)
– Share consolidation (<i>note 1c</i>)	(2,226,565,465)	–
Exercise of share options (<i>note 2</i>)	10,510,000	105
At 31st March, 2004, at HK\$0.01 each	127,697,656	1,277
Exercise of share options (<i>note 2</i>)	1,155,000	12
Issue of shares (<i>note 3</i>)	175,000,000	1,750
Conversion of convertible notes (<i>note 4</i>)	<u>57,142,851</u>	<u>571</u>
At 31st March, 2005, at HK\$0.01 each	<u>360,995,507</u>	<u>3,610</u>

Notes:

- (1) Pursuant to an announcement dated 6th March, 2003 (the "Announcement") and resolutions passed on 14th April, 2003, a capital reorganisation (the "Capital Reorganisation") was passed with effect from 15th April, 2003 which involved:
- (a)
 - (i) the nominal value of all issued ordinary shares of HK\$0.10 each in the share capital of the Company (the "Share(s)") was reduced by HK\$0.0995 each by cancelling an equivalent amount of paid-up capital of the Share so that the nominal value of each such Share was reduced from HK\$0.10 to HK\$0.0005. Accordingly, based upon 2,343,753,121 Shares in issue as at the date of the Announcement, the issued share capital of the Company of HK\$234,375,000 would be reduced by HK\$233,203,000 to HK\$1,172,000 (the "Capital Reduction"); and
 - (ii) the credit arising from such reduction had been credited to the contributed surplus account of the Company;
 - (b) every unissued share of HK\$0.10 was sub-divided into 200 unissued shares of HK\$0.0005 each;
 - (c) every 20 issued and unissued shares of HK\$0.0005 each in the capital of the Company were consolidated into one new ordinary share of HK\$0.01 each in the share capital of the Company following the Capital Reorganisation (the "Consolidated Share(s)"). On such basis and after the Capital Reduction, there were 117,187,656 Consolidated Shares in issue (the "Share Consolidation"); and
 - (d) the share premium as at 31st January, 2003 in the share premium account of the Company was cancelled and the credit arising therefrom was credited to the contributed surplus account of the Company.

Part of the credit transferred to the contributed surplus account of the Company mentioned in (a)(ii) and (d) above had been used to set off against the deficit of the Company as at 31st January, 2003. According to the unaudited management accounts of the Company as at 31st January, 2003, the deficit of the Company amounted to approximately HK\$535.9 million.

- (2) On 23rd February, 2004, 24th February, 2004, 5th March, 2004 and 19th April, 2004, the Company issued 3,510,000, 5,845,000, 1,155,000 and 1,155,000 ordinary shares of HK\$0.01 each, respectively, for consideration of HK\$0.207 per share upon exercise of share options granted to certain employees and consultants.
- (3) On 15th December, 2004, the Company entered into a share placing agreement with a placing agent for the placing of 150,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company at an issue price of HK\$0.40 per share, on a best effort basis to not less than six placing share subscribers (the "Share Placing"). On the same date, the Company also entered into a convertible note placing agreement with the placing agent for a placing of HK\$100 million 2% convertible notes due 2008 at an initial conversion price of HK\$0.42 per share, representing a discount of approximately 8.7% to the closing price of HK\$0.46 per share as quoted on the Stock Exchange on 10th December, 2004, on a best effort basis to not less than six convertible note subscribers (the "Convertible Note Placing"). The net proceeds of approximately HK\$35 million and HK\$90 million would be used to finance the repayment of certain short-term borrowings and the expansion of the Group's investment properties portfolio, respectively. The balance of HK\$30 million would be used as general working capital. The new shares rank pari passu with other shares in issue in all respects.

On 28th December, 2004, the Company entered into another share placing agreement with a placing agent for a placing of 25,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company at an issue price of HK\$0.81 per share, representing a discount of 19.0% to the price of HK\$1.00 per share as quoted on the Stock Exchange on 23rd December, 2004 on a best effort basis to not less than six placees. The net proceeds of HK\$19.25 million would be used as general working capital. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 31st August, 2004 and rank pari passu with all the other shares in issue in all respects.

- (4) In December 2004 and February 2005, the HK\$15,000,000 2% convertible notes due 2006 and HK\$10,000,000 2% convertible notes due 2008 were converted into 33,333,331 and 23,809,520 ordinary shares of HK\$0.01 each in the capital of the Company at conversion prices of HK\$0.45 and HK\$0.42 per share, respectively. The new shares rank pari passu with all the other shares in issue in all respects.

27. SHARE OPTIONS

Scheme adopted on 28th February, 1994 (the "1994 Scheme")

The 1994 Scheme was adopted on 28th February, 1994 for the primary purpose of providing incentives to directors and eligible employees and was expired on 27th February, 2004.

At 31st March, 2005, the number of shares in respect of which options had been granted and remained outstanding under the 1994 Scheme was 27,300, representing approximately 0.02% of the shares of the Company in issue at that date.

Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated. After the termination of 1994 Scheme, no more share options can be granted under the scheme and the outstanding share options under it are remain exercisable until they expire.

Scheme adopted on 26th August, 2002 (the "2002 Scheme")

Following the termination of the 1994 Scheme in August 2002, the 2002 Scheme was adopted pursuant to a resolution passed on 26th August, 2002 for the primary purpose of providing incentives to eligible persons and will expire on 25th August, 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant share options to the following eligible persons to subscribe for shares in the Company:

- (i) employees including executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or
- (ii) non-executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or
- (iii) suppliers or customers; or
- (iv) consultants, advisers or agents.

Share options granted should be accepted within 28 days of the date of grant, upon payment of HK\$1 per each grant of share options. The exercise price is determined at the highest of: (i) the closing price of the shares on the date of grant of the share option; or (ii) the average closing price of shares on the five trading days immediately preceding the date of grant; or (iii) the nominal value of shares on the date of grant.

Share options may be exercised in accordance with the terms of the 2002 Scheme at any time after the date upon which the option is granted and accepted and prior to the expiry of ten years from that date.

At 31st March, 2005, no option under the 2002 Scheme was outstanding. The maximum number of shares in respect of which share options under the 2002 Scheme may be granted when aggregated with the maximum number of shares in respect of which options may be granted under all the other schemes (the "Scheme Limit") is 10% of shares in issue on the adoption date of the 2002 Scheme. The Scheme Limit may be refreshed by a resolution in shareholders' meeting such that the total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other schemes shall not exceed 10% of the shares in issue as at the date of such shareholder's approval. However, the Scheme Limit and any increase in the Scheme Limit shall not result in the number of shares which may be issued upon exercise of all outstanding share options granted under the 2002 Scheme and other schemes exceed 30% of the shares in issue from time to time. No person shall be granted a share option, within 12-month period of the date of grant, exceeds 1% of the shares in issue as at the date of grant.

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option type	Outstanding at 1.4.2004	Adjustment during the year	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2005
1994 Scheme	27,300	-	-	-	-	27,300
2002 Scheme	1,155,000	-	-	(1,155,000)	-	-
	<u>1,182,300</u>	<u>-</u>	<u>-</u>	<u>(1,155,000)</u>	<u>-</u>	<u>27,300</u>
Option type	Outstanding at 1.4.2003	Adjustment during the year (Note)	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2004
1994 Scheme	11,889,000	(11,294,550)	-	-	(567,150)	27,300
2002 Scheme	-	-	11,665,000	(10,510,000)	-	1,155,000
	<u>11,889,000</u>	<u>(11,294,550)</u>	<u>11,665,000</u>	<u>(10,510,000)</u>	<u>(567,150)</u>	<u>1,182,300</u>

The market price of the shares was HK\$0.33 (2004: ranged from HK\$0.40 to HK\$0.43) on the exercise date of the options.

Details of the 1994 Scheme held by the directors during the year ended 31st March, 2004 included in the above table are as follows:

Year	Outstanding at 1st April	Adjustment during the year (Note)	Cancelled during the year	Outstanding at 31st March
2004	<u>4,580,000</u>	<u>(4,351,000)</u>	<u>(229,000)</u>	<u>-</u>

There was no option granted to directors under the 2002 Scheme.

Details of the share options outstanding at 31st March, 2004 and 2005 are as follows:

Date of grant	Exercisable period	Exercise price HK\$ (Note)	Number of shares to be issued upon exercise of the share options	
			2005 (Note)	2004 (Note)
1994 Scheme				
19.6.1997	19th June, 1997 to 18th June, 2007	21.84	4,800	4,800
2.2.1998	2nd February, 1998 to 1st February, 2008	2.00	2,000	2,000
17.11.1999	17th November, 1999 to 16th November, 2009	2.34	10,500	10,500
14.3.2000	14th March, 2000 to 13th March, 2010	6.60	10,000	10,000
			27,300	27,300
2002 Scheme				
7.1.2004	9th January, 2004 to 8th January, 2014	0.207	–	1,155,000
			27,300	1,182,300

Note: With effect from 15th April, 2003, every 20 issued and unissued shares of HK\$0.0005 each in the capital of the Company was consolidated into one new ordinary share of HK\$0.01 each in the share capital of the Company following the Capital Reorganisation. Accordingly, the exercise price and the number of share options were adjusted.

Total consideration received during the year ended 31st March, 2004 from employees and consultants for taking up the options granted amounted to HK\$10.

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

28. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000 (Note)	Deficit HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April, 2003	334,999	646	173,869	(587,984)	(78,470)
Capital reorganisation					
– Capital reduction (note 26(1a))	–	–	233,203	–	233,203
– Cancellation of share premium (note 26(1d))	(334,999)	–	334,999	–	–
– Set-off against the deficit (note 26(1))	–	–	(535,894)	535,894	–
Exercise of share options (note 26(2))	2,071	–	–	–	2,071
Loss for the year	–	–	–	(92,083)	(92,083)
At 31st March, 2004	2,071	646	206,177	(144,173)	64,721
Exercise of share options (note 26(2))	227	–	–	–	227
Issue of shares (note 26(3))	78,500	–	–	–	78,500
Conversion of convertible notes (note 26(4))	24,429	–	–	–	24,429
Expenses incurred in connection with issue of shares	(2,623)	–	–	–	(2,623)
Loss for the year	–	–	–	(6,563)	(6,563)
At 31st March, 2005	<u>102,604</u>	<u>646</u>	<u>206,177</u>	<u>(150,736)</u>	<u>158,691</u>

Note: The contributed surplus of the Company represents:

- (i) the difference between the underlying net assets of the subsidiaries acquired by the Company at the date of the group reorganisation in 1994 less any dividends distributed from the pre-reorganisation reserves and the nominal amount of the Company's share capital issued as consideration for the acquisition; and
- (ii) net balance from capital reduction, cancellation of share premium and set-off against the deficit pursuant to the capital reorganisation on 15th April, 2003.

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

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2005 was HK\$55,441,000 (2004: HK\$62,004,000).

29. DISPOSAL OF SUBSIDIARIES

	2004
	<i>HK\$'000</i>
Net assets disposed of:	
Creditors and accrued charges	(20)
Gain on disposal of subsidiaries	30
	<hr/>
Total consideration	10
	<hr/> <hr/>
Satisfied by:	
Cash	10
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration	10
	<hr/> <hr/>

The subsidiaries disposed of during the year ended 31st March, 2004 had no contribution to the Group's turnover and had a loss of HK\$39,000 included in the Group's results from operations.

30. ACQUISITION OF SUBSIDIARIES

In May 2004, the Group acquired 100% of the issued share capital of Tung Fong Hung Investment Limited and its subsidiaries and the remaining 50% of the issued share capital of Pacific Wins Development Ltd. for considerations of HK\$42 million and HK\$28 million, respectively. The acquisitions have been accounted for by using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	2005 HK\$'000	2004 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	71,549	–
Intangible assets	1,264	–
Inventories	60,353	–
Debtors, deposits and prepayments	26,205	–
Tax recoverable	14	–
Bank balances and cash	23,274	–
Creditors and accrued charges	(48,613)	–
Obligations under a finance lease	(149)	–
Bank and other borrowings	(82,698)	–
Minority interests	–	(124,879)
	<u>51,199</u>	<u>(124,879)</u>
Goodwill	22,936	–
	<u>74,135</u>	<u>(124,879)</u>
Total consideration	<u>74,135</u>	<u>(124,879)</u>
SATISFIED BY		
Cash	42,000	–
Promissory notes	13,000	–
Convertible notes	15,000	–
Legal and professional fees	4,135	261
Waiver of loans from former minority shareholder	–	(125,140)
	<u>74,135</u>	<u>(124,879)</u>
Net cash outflow arising on acquisition		
Cash consideration	(42,000)	–
Legal and professional fees	(4,135)	–
Bank balances and cash acquired	23,274	–
	<u>(22,861)</u>	<u>–</u>

The subsidiaries acquired during the year contributed HK\$275,952,000 (2004: HK\$11,158,000) to the Group's turnover and a profit of HK\$2,888,000 (2004: HK\$1,895,000) to the Group's results from operations.

31. CONTINGENT LIABILITIES

At 31st March, 2005, the Group had given an indemnity to the purchaser relating to unrecorded taxation liabilities, if any, and warranties relating to the affairs and businesses of a subsidiary disposed of in the previous year. The maximum aggregate liability of the Group in respect of all claims for breach of the warranties shall, when taken together with the aggregate liability of the Group in respect of all claims under the indemnity, not exceed the sum of HK\$60,000,000 (2004: HK\$60,000,000). All related claims may be brought against the Group up to the expiry of 10 years from 31st March, 1998.

At 31st March, 2005, the Company had outstanding corporate guarantees amounting to approximately HK\$41,082,000 (2004: HK\$114,000,000) issued in favour of banks to secure general banking facilities granted by the banks to its subsidiaries and had given guarantees to security companies in respect of the obligations of security accounts opened in the security companies by its subsidiaries.

32. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	2,550	–

33. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Property rentals paid by the Group during the year in respect of:		
Minimum lease payments	19,162	–
Contingent rents	3,811	–
	<u>22,973</u>	<u>–</u>

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	19,280	–
In the second to fifth year inclusive	18,710	–
	<u>37,990</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and outlets. Leases are negotiated for an average term of three years and rentals are either fixed or, in addition to the fixed rentals, contingent based on a fixed percentage of the monthly gross turnover of the outlets, for an average term of three years.

The Group as lessor

The property rental income earned during the year was HK\$98,000 (2004: HK\$374,000).

The investment property was expected to generate rental yields of 4.56% for the year ended 31st March, 2004 on an ongoing basis.

At 31st March, 2005, the Group had no operating lease commitment.

At 31st March, 2004, the Group had contracted tenants for the future minimum lease payments amounting to HK\$90,000 which fall due within one year.

34. PLEDGE OF ASSETS

At 31st March, 2005, the Group's bank and other borrowings were secured by the following:

- (a) legal charges over the property, plant and equipment of Jean-Marie Pharmecal Company Limited, a subsidiary of the Company with a carrying value of HK\$11,959,000 (2004: Nil);
- (b) bank deposits of HK\$3,000,000 (2004: Nil); and
- (c) legal charges over the properties held for sale of the Group with a carrying value of HK\$58,536,000 (2004: HK\$116,846,000).

In addition to (c) indicated above, at 31st March, 2004, the Group's bank and other borrowings were also secured by the following:

- (a) legal charges over the investment properties of a subsidiary, Fountain Property Limited, with a carrying value of HK\$8,200,000;
- (b) a share charge of a subsidiary Master Super Development Limited ("Master Super");
- (c) a floating charge on all the assets, including but not limited to the uncalled capital, of Master Super;
- (d) assignments of the right, title, interest and benefits in and under all the existing and future building contracts in respect of the Group's properties held for sale in Hong Kong;
- (e) the benefit under all insurance policies of the Group's properties held for sale in Hong Kong;
- (f) the future sales proceeds, rentals and other earnings generated from the Group's properties held for sale; and
- (g) subordination of shareholders' loans of Master Super.

35. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for eligible employees. The assets of the scheme are separately held in funds under the control of trustees.

The cost charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet dates, the Group had no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable by the Group in future years.

With effect from 1st December, 2000, the Group has also joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. The contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

36. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2005, the Group has the following significant post balance sheet events:

- (a) Pursuant to the announcement on 20th April, 2005 and the circular dated 23rd May, 2005, on 8th April, 2005, the Company entered into seven subscription agreements with each of the subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with each of the subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement are not inter-conditional on each other.

Of the nine subscribers, seven of them are fund subscribers who are funds managed by global asset management firms, with the remaining two subscribers being Loyal Concept Limited ("Loyal Concept") and Kopola Investment Company Limited ("Kopola"). Pursuant to the subscription agreements, the fund subscribers, Loyal Concept and Kopola have in aggregate conditionally agreed to subscribe by cash for the HK\$956 million zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the subscription agreements (the "Subscription Convertible Notes") with principal amounts of HK\$356 million, HK\$450 million and HK\$150 million, respectively (the "Subscription"). Loyal Concept is an indirect wholly-owned subsidiary of Hanny Holdings Limited ("Hanny"), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange. Loyal Concept and Hanny are not connected persons of the Company. Kopola is 50% held by Mr. Ho Hau Chong, Norman ("Mr. Ho"), the deputy chairman and independent non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Listing Rules. Therefore, the subscription of the Subscription Convertible Notes by Kopola constitutes a connected transaction of the Company under the Listing Rules.

Pursuant to the placing agreement, the placing agent will procure, on a best effort basis, no less than six placees to subscribe by cash for the HK\$44 million zero coupon convertible notes due 2010 proposed to be issued by the Company (the "Placing Convertible Notes") with a principal amount of HK\$44 million (the "Placing"). None of the placees will be a subscriber.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 2,172,727,272 new ordinary shares will be issued.

Assuming all the HK\$44 million Placing Convertible Notes are successfully placed by the placing agent, upon full conversion of the Placing Convertible Notes at the initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares will be issued.

The total gross proceeds from the Subscription and the Placing amount to HK\$956 million and HK\$44 million, respectively. Therefore, the maximum total gross proceeds from the Subscription and the Placing amount to HK\$1,000 million. Net proceeds of approximately HK\$996 million will be used to finance the expansion of the investment property portfolio of the Company.

- (b) Pursuant to the announcement on 3rd June, 2005, a subsidiary of the Company and an independent third party (the "Vendor") signed a non-binding letter of intent with a view to negotiating with the Vendor a possible acquisition from the Vendor 50% of its ownership and interest in certain land located in Macau (the "Acquisition"), which initially is intended for redevelopment purposes, at the initial consideration of HK\$495 million. Formal agreement in respect of the Acquisition has not been entered into up to the date of the financial statements.

37. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Asia Progress Investments Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
Cheung Tai Hong (B.V.I.) Limited	British Virgin Islands	US\$50,000 ordinary shares	100	-	Investment holding
Cheung Tai Hong, Limited	Hong Kong	HK\$2,000 ordinary shares	-	100	Investment holding
		HK\$500,000 non-voting deferred shares (note 1)	-	-	
Cheung Tai Hong Holdings (Motor Vehicle) Limited	Hong Kong	HK\$10,000 ordinary shares	-	100	Trading of motorcycles and spare parts
Champion Palace Development Limited	Hong Kong	HK\$2 ordinary shares	-	100	Properties holding in the PRC
Exalt Investment Limited	Hong Kong	HK\$10,000 ordinary shares	-	100	Investment holding
Fountain Property Limited	Hong Kong	HK\$2 ordinary shares	-	100	Property investment
Handsworth Investments Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
Jean-Marie Wellness Biotech Corporation Limited	British Virgin Islands	US\$2 ordinary shares	-	100	Investment holding
Jean-Marie Pharmacial Company Limited	Hong Kong	HK\$812,600 ordinary shares	-	100	Manufacture and sales of pharmaceutical products
Jean-Marie Pharmacial Management Limited	Hong Kong	HK\$2 ordinary shares	-	100	Investment holding
Jumbo Ever Limited	Hong Kong	HK\$2 ordinary shares	-	100	Investment holding
Master Super	Hong Kong	HK\$100 ordinary shares	-	100	Property holding and sale

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Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Pacific Essence Limited	British Virgin Islands	US\$1 ordinary share	–	100	Investment holding
Pacific Wins Development Ltd.	British Virgin Islands	US\$1,000 ordinary shares	–	100	Investment holding
Sound Advice Investments Limited	British Virgin Islands	US\$100 ordinary shares	–	100	Investment holding
Tung Fong Hung Investment Limited	British Virgin Islands	US\$10,000 ordinary shares	–	100	Investment holding
Tung Fong Hung Nominees Limited	British Virgin Islands	US\$2 ordinary shares	–	100	Provision of nominee services
Tung Fong Hung (China) Limited	Hong Kong	HK\$2 ordinary shares	–	100	Distribution of Chinese medicine and health food
Tung Fong Hung Foods Limited	Hong Kong	HK\$2 ordinary shares	–	100	Distribution of health food
Tung Fong Hung Foods Company, B.C. Limited	Canada	CAD360 common	–	100	Distribution of health food
Tung Fong Hung Medicine (BVI) Limited	British Virgin Islands	HK\$0.2 ordinary share	–	100	Investment holding
Tung Fong Hung Medicine Company, Limited	Hong Kong	HK\$1,001 ordinary shares	–	100	Retailing of Chinese medicine and foodstuffs
Tung Fong Hung Medicine Company (Macau) Limited	Macau	MOP100,000 quota capital	–	100	Retailing of Chinese medicine and foodstuffs
TFH Management Limited	Hong Kong	HK\$2 ordinary shares	–	100	Provision of management services
TFH Manufacturing Company Limited	Hong Kong	HK\$2 ordinary shares	–	100	Processing, packaging and distribution of Chinese medicine and foodstuffs
TFH (China) Holdings Limited	Hong Kong	HK\$2 ordinary shares	–	100	Investment holding
Total Pacific Limited	Hong Kong	HK\$2 ordinary shares	–	100	Investment holding

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Universal Focus Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
廣州市東方紅保健品有限公司	PRC (note 2)	HK\$2,500,000	-	100	Distribution of Chinese medicine and health food
深圳市東方紅保健品有限公司	PRC (note 3)	RMB1,000,000	-	100	Distribution of Chinese medicine and health food
東方紅(中山)保健食品廠有限公司	PRC (note 2)	USD1,000,000	-	100	Processing and wholesaling of health food
黑龍江金保華農業有限公司	PRC (note 2)	HK\$14,000,000	-	100	Cultivation and sales of potatoes
哈爾濱東方綠種業有限公司	PRC (note 3)	RMB1,100,000	-	100	Sales of potatoes seeds

Notes:

- (1) The non-voting deferred shares which are not held by the Group practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies nor to participate in any distribution on winding up.
- (2) The subsidiaries are wholly-owned foreign enterprises.
- (3) The subsidiaries are wholly-owned domestic enterprises.

None of the subsidiaries had any debt securities outstanding at the balance sheet date or at any time during the year.

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

38. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Medicine and health food	-	manufacture and sales of medicine and health food
Property	-	property investment and development
Motorcycles	-	trading of motorcycles and spare parts

Segment information about these businesses is presented below:

2005

	Medicine and health food HK\$'000	Motorcycles HK\$'000	Property HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
INCOME STATEMENT					
FOR THE YEAR ENDED					
31ST MARCH, 2005					
Turnover	<u>275,952</u>	<u>11,737</u>	<u>91,707</u>	<u>-</u>	<u>379,396</u>
Segment results	<u>2,888</u>	<u>542</u>	<u>27,160</u>	<u>-</u>	<u>30,590</u>
Unallocated corporate expenses					<u>(11,450)</u>
Profit from operations					<u>19,140</u>
Finance costs					<u>(7,379)</u>
Profit before taxation					<u>11,761</u>
Taxation					<u>(1,823)</u>
Profit for the year					<u><u>9,938</u></u>
BALANCE SHEET					
AT 31ST MARCH, 2005					
ASSETS					
Segment assets	218,491	2,019	62,156	-	282,666
Unallocated corporate assets	-	-	-	195,847	<u>195,847</u>
Consolidated total assets					<u><u>478,513</u></u>
LIABILITIES					
Segment liabilities	57,986	753	1,636	-	60,375
Unallocated corporate liabilities	-	-	-	174,531	<u>174,531</u>
Consolidated total liabilities					<u><u>234,906</u></u>
OTHER INFORMATION					
Depreciation and amortisation	8,652	-	-	184	8,836
Amortisation of intangible assets	71	-	-	-	71
Amortisation of goodwill	1,051	-	-	-	1,051
Write-off of intangible assets	645	-	-	-	645
Capital additions	74,627	-	-	3	74,630
Development cost incurred	2,731	-	-	-	2,731
Goodwill	22,936	-	-	-	22,936
Doubtful debt provided (recovered)	1,741	-	-	(12)	1,729
Loss on disposal of investment properties	-	-	(3,217)	-	(3,217)
Release of negative goodwill	-	-	(2,224)	-	(2,224)

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2004

	Motorcycles HK\$'000	Property HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004				
Turnover	<u>15,864</u>	<u>47,650</u>	<u>-</u>	<u>63,514</u>
Segment results	<u>664</u>	<u>(9,641)</u>	<u>-</u>	<u>(8,977)</u>
Unallocated corporate expenses				<u>(13,259)</u>
Loss from operations				(22,236)
Finance costs				(15,585)
Gain on disposal of subsidiaries		20	10	<u>30</u>
Loss before taxation				(37,791)
Taxation				<u>-</u>
Loss before minority interests				(37,791)
Minority interests				<u>8,179</u>
Loss for the year				<u>(29,612)</u>
BALANCE SHEET AT 31ST MARCH, 2004				
ASSETS				
Segment assets	1,977	132,995	-	134,972
Unallocated corporate assets				<u>97,289</u>
Consolidated total assets				<u>232,261</u>
LIABILITIES				
Segment liabilities	1,157	6,295	-	7,452
Unallocated corporate liabilities				<u>94,633</u>
Consolidated total liabilities				<u>102,085</u>
OTHER INFORMATION				
Depreciation and amortisation	-	2	181	183
Allowance for properties held for sale	-	6,006	-	6,006
Deficit arising on revaluation of investment properties	-	8,800	-	8,800
Release of negative goodwill	-	(747)	-	(747)
Doubtful debt provided (recovered)	-	37	(57)	(20)

Geographical segments

The Group's operations are principally located in Hong Kong, the PRC and other countries including Canada, Taiwan, Singapore and Macau. The Group's administrative function was carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Profit (loss) from operations	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	288,326	63,514	32,941	(11,131)
PRC	60,687	–	4,358	1,548
Other countries	30,383	–	(1,329)	–
	<u>379,396</u>	<u>63,514</u>	35,970	(9,583)
Corporate expenses			(16,830)	(12,653)
Profit (loss) from operations			<u>19,140</u>	<u>(22,236)</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment, intangible assets and goodwill	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	387,351	232,261	99,348	–
PRC	78,351	–	857	–
Other countries	12,811	–	92	–
	<u>478,513</u>	<u>232,261</u>	<u>100,297</u>	<u>–</u>

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

The following is the reproduction of the text of the unaudited consolidated financial statements of the Group together with the accompanying notes contained in pages 4 to 21 of the interim report of the Company for the six months ended 30th September, 2005:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2005

	NOTES	Six months ended	
		30.9.2005 (unaudited) HK\$'000	30.9.2004 (unaudited) HK\$'000
Turnover	4	426,380	175,398
Cost of sales		<u>(370,651)</u>	<u>(125,505)</u>
Gross profit		55,729	49,893
Other income		6,830	289
Distribution costs		(33,043)	(24,733)
Administrative expenses		(20,099)	(13,651)
Other expenses		(304)	–
Gain arising from change in fair value of financial assets at fair value through profit or loss		216	–
Gain on disposal of investments in securities		–	53
Amortisation of goodwill arising on acquisition of subsidiaries		–	(478)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries		(11,000)	–
Loss on disposal of investment properties		–	(3,217)
Unrealised holding loss of investments held for trading/other investments		(5,330)	(4,696)
Finance costs	5	<u>(9,940)</u>	<u>(4,011)</u>
Loss before taxation	6	(16,941)	(551)
Taxation	7	<u>(819)</u>	<u>(466)</u>
Loss for the period attributable to equity holders of the parent		<u><u>(17,760)</u></u>	<u><u>(1,017)</u></u>
Loss per share	9		
– Basic		<u><u>(4.4 cents)</u></u>	<u><u>(0.8 cents)</u></u>
– Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2005

	NOTES	30.9.2005 (unaudited) HK\$'000	31.3.2005 (restated) HK\$'000
Non-current assets			
Property, plant and equipment	10	62,666	64,353
Prepaid lease payments		1,350	1,365
Intangible assets		3,043	2,015
Goodwill		10,885	21,885
		<u>77,944</u>	<u>89,618</u>
Current assets			
Inventories		73,377	59,280
Debtors, deposits and prepayments	11	429,610	38,280
Loan receivables		49,814	31,500
Prepaid lease payments		30	30
Properties held for sale		58,547	58,536
Investments in securities		–	10,289
Investments held for trading		53,052	–
Financial assets at fair value through profit or loss		26,840	–
Pledged bank deposits		3,000	3,000
Bank balances and cash		669,511	187,980
		<u>1,363,781</u>	<u>388,895</u>
Current liabilities			
Creditors and accrued charges	12	77,145	62,772
Tax payable		62	1,041
Obligations under a finance lease – due within one year		33	23
Promissory note payables		–	13,000
Convertible note payables	13	353	180
Bank and other borrowings – due within one year		49,053	62,146
		<u>126,646</u>	<u>139,162</u>
Net current assets		<u>1,237,135</u>	<u>249,733</u>
Total assets less current liabilities		<u>1,315,079</u>	<u>339,351</u>
Non-current liabilities			
Obligations under a finance lease – due after one year		91	119
Bank and other borrowings – due after one year		1,875	5,625
Convertible note payables	13	901,333	84,803
		<u>903,299</u>	<u>90,547</u>
Net assets		<u>411,780</u>	<u>248,804</u>
Capital and reserves			
Share capital	15	4,086	3,610
Reserves		406,770	245,194
Equity attributable to equity holders of the parent		410,856	248,804
Minority interests		924	–
Total equity		<u>411,780</u>	<u>248,804</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30th September, 2005

	Attributable to equity holders of the parent										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Other reserve	Special reserve	Translation reserve	Accumulated profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2004	1,277	2,071	646	-	32,308	(8,908)	-	102,782	130,176	-	130,176
Exchange differences arising on operations outside Hong Kong and income recognised directly in equity	-	-	-	-	-	-	645	-	645	-	645
Loss for the period	-	-	-	-	-	-	-	(1,017)	(1,017)	-	(1,017)
Total recognised income and expense for the period	-	-	-	-	-	-	645	(1,017)	(372)	-	(372)
Exercise of share options	11	227	-	-	-	-	-	-	238	-	238
At 30th September, 2004	1,288	2,298	646	-	32,308	(8,908)	645	101,765	130,042	-	130,042
Exchange differences arising on operations outside Hong Kong and loss recognised directly in equity	-	-	-	-	-	-	(18)	-	(18)	-	(18)
Profit for the period	-	-	-	-	-	-	-	13,279	13,279	-	13,279
Total recognised income and expense for the period	-	-	-	-	-	-	(18)	13,279	13,261	-	13,261
Recognition of equity component of convertible notes	-	-	-	3,466	-	-	-	-	3,466	-	3,466
Exercise of share options	1	-	-	-	-	-	-	-	1	-	1
Issue of shares	1,750	78,500	-	-	-	-	-	-	80,250	-	80,250
Conversion of convertible notes	571	24,182	-	(346)	-	-	-	-	24,407	-	24,407
Expenses incurred in connection with issue of shares	-	(2,623)	-	-	-	-	-	-	(2,623)	-	(2,623)
At 31st March, 2005 as restated	3,610	102,357	646	3,120	32,308	(8,908)	627	115,044	248,804	-	248,804
Exchange differences arising on operations outside Hong Kong and income recognised directly in equity	-	-	-	-	-	-	31	-	31	-	31
Loss for the period	-	-	-	-	-	-	-	(17,760)	(17,760)	-	(17,760)
Total recognised income and expense for the period	-	-	-	-	-	-	31	(17,760)	(17,729)	-	(17,729)
Recognition of equity component of convertible notes	-	-	-	160,914	-	-	-	-	160,914	-	160,914
Conversion of convertible notes	476	19,084	-	(693)	-	-	-	-	18,867	-	18,867
Capital contribution of minority shareholders	-	-	-	-	-	-	-	-	-	924	924
At 30th September, 2005	4,086	121,441	646	163,341	32,308	(8,908)	658	97,284	410,856	924	411,780

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2005

	Six months ended	
	30.9.2005	30.9.2004
	(unaudited) HK\$'000	(unaudited) HK\$'000
Net cash from operating activities	4,072	59,470
Net cash used in investing activities		
Proceeds from disposal of investments held for trading	282,406	1,416
Refundable earnest monies paid	(390,000)	–
Acquisition of investments held for trading	(326,500)	–
Other investing cash flows	(45,268)	(19,136)
	<u>(479,362)</u>	<u>(17,720)</u>
Net cash from (used in) financing activities		
Proceeds from issue of convertible notes	988,867	–
New bank and other borrowings raised	473	56,536
Repayment of promissory notes	(13,000)	–
Repayment of bank and other borrowings	(17,316)	(112,844)
Other financing cash flows	(2,234)	(2,696)
	<u>956,790</u>	<u>(59,004)</u>
Net increase (decrease) in cash and cash equivalents	481,500	(17,254)
Cash and cash equivalents at beginning of the period	187,980	80,136
Effect of foreign exchange rate changes	31	527
Cash and cash equivalents at end of the period	<u>669,511</u>	<u>63,409</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	669,511	64,025
Bank overdrafts	–	(616)
	<u>669,511</u>	<u>63,409</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“**HKFRS(s)**”), Hong Kong Accounting Standards (“**HKAS(s)**”) and Interpretations (hereinafter collectively referred to as “**new HKFRSs**”) issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Business Combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 “Business Combinations” to goodwill acquired in business combinations for which the agreement date was before 1st January, 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Share-based Payments

In the current period, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“**equity-settled transactions**”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“**cash-settled transactions**”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has

applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st April, 2005. Because there were no unvested share options at 1st April, 2005 and no share options have been granted during the period, the adoption of HKFRS 2 has had no impact on the Group's results for the current or prior accounting periods.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible loan note payables issued by the Company that contain both liability and equity components. The liability component is classified as a liability while the equity component is grouped under the reserves of the Company. Previously, convertible note payables were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Liabilities as at 31st March, 2005 have been decreased by HK\$5,197,000 with an increase in accumulated profits of HK\$2,324,000 and an increase in reserves by HK\$2,873,000.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Investments in securities classified under current assets with a carrying amount of HK\$10,289,000 were classified to investments held for trading.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. During the period, the Group has acquired and designed all equity-linked notes as “financial assets at fair value through profit or loss”. The adoption of HKAS 39 has had no material effect in the Group’s accumulated profits.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Potential Impact of New HKFRSs not yet Adopted

The Group has not early applied the following new HKFRSs that have been issued but are not effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior periods are as follows:

	Effect of adopting	Six months ended 30.9.2005 HK\$'000	30.9.2004 HK\$'000
Increase in impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	HKFRS 3	(573)	–
Decrease in amortisation of goodwill	HKFRS 3	573	–
Increase in interest on the liability component of convertible notes	HKAS 32	(7,443)	–
Gain arising from changes in fair value of financial assets at fair value through profit or loss	HKAS 39	216	–
Increase in loss for the period		<u>(7,227)</u>	<u>–</u>

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (originally stated) HK\$'000	Effect of HKAS 17 HK\$'000	Effect of HKAS 32 HK\$'000	As at 31st March, 2005 (restated) HK\$'000	Effect of HKAS 39 HK\$'000	As at 1st April, 2005 (restated) HK\$'000
Balance sheet items						
Property, plant and equipment	65,748	(1,395)	–	64,353	–	64,353
Prepaid lease payment	–	1,395	–	1,395	–	1,395
Investments in securities	10,289	–	–	10,289	(10,289)	–
Investments held for trading	–	–	–	–	10,289	10,289
Creditors and accrued charges	(62,952)	–	180	(62,772)	–	(62,772)
Convertible note payables						
– current portion	–	–	(180)	(180)	–	(180)
– non-current portion	(90,000)	–	5,197	(84,803)	–	(84,803)
Total effects on assets and liabilities	<u>(76,915)</u>	<u>–</u>	<u>5,197</u>	<u>(71,718)</u>	<u>–</u>	<u>(71,718)</u>
Share premium	102,604	–	(247)	102,357	–	102,357
Accumulated profits	112,720	–	2,324	115,044	–	115,044
Capital reserve – equity component of convertible notes	–	–	3,120	3,120	–	3,120
Total effects on equity	<u>215,324</u>	<u>–</u>	<u>5,197</u>	<u>220,521</u>	<u>–</u>	<u>220,521</u>

4. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four main operating segments—manufacturing and trading of medicine and health foods, motorcycles, property development and securities investment. These divisions are the bases on which the Group reports its primary segment information.

Six months ended 30th September, 2005

	Medicine and health food <i>HK\$'000</i>	Motorcycles <i>HK\$'000</i>	Property <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	138,427	5,547	–	282,406	426,380
SEGMENT RESULTS					
	5,878	186	259	(1,190)	5,133
Unallocated corporate income					5,313
Unallocated corporate expenses					(6,447)
Impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	(11,000)	–	–	–	(11,000)
Finance costs					(9,940)
Loss before taxation					(16,941)
Taxation					(819)
Loss for the period					(17,760)

Six months ended 30th September, 2004

	Medicine and health food <i>HK\$'000</i>	Motorcycles <i>HK\$'000</i>	Property <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	107,080	7,673	60,645	175,398
SEGMENT RESULTS				
	601	253	9,611	10,465
Unallocated corporate expenses				(7,005)
Finance costs				(4,011)
Loss before taxation				(551)
Taxation				(466)
Loss for the period				(1,017)

5. FINANCE COSTS

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank and other borrowings wholly repayable within five years	1,555	2,719
Promissory notes	210	290
Convertible notes	8,175	122
Loan arrangement fees	–	880
	<u>9,940</u>	<u>4,011</u>

6. LOSS BEFORE TAXATION

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Loss before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	4,923	4,209
Amortisation of prepaid lease payments	15	12
Amortisation of intangible assets included in administrative expenses	29	4
Loss on disposal of property, plant and equipment	260	53
Bad debts recovered	–	(1)
	<u>–</u>	<u>(1)</u>

7. TAXATION

The taxation represents provision for income tax in the People's Republic of China (the "PRC").

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profit for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDENDS

No dividends were paid during the period (six months ended 30th September, 2004: Nil). The directors do not recommend the payment of an interim dividend.

9. LOSS PER SHARE

The calculation of the basic loss per share attributable to equity holders of the parent is based on the following data:

	Six months ended	
	30.9.2005 HK\$'000	30.9.2004 HK\$'000
Loss for the period	<u>17,760</u>	<u>1,017</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>403,150,067</u>	<u>128,739,049</u>

No diluted loss per share has been presented because the exercise of the share options and the conversion of the convertible notes would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$4,092,000 on acquisition of property, plant and equipment. In addition, the Group disposed of certain plant and equipment with a carrying amount of approximately HK\$856,000 for proceeds of HK\$596,000, resulting in a loss on disposal of approximately HK\$260,000.

At 30th September, 2005, certain equipment of the Group with an aggregate net book value of approximately HK\$11,587,000 (31st March, 2005: HK\$11,959,000) were pledged to a bank to secure general banking facilities granted to the Group.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit period ranging from 0 to 30 days to its trade customers.

The following is an aged analysis of trade debtors at the balance sheet date:

	30.9.2005 HK\$'000	31.3.2005 HK\$'000
0 – 30 days	18,247	16,067
31 – 60 days	1,044	269
61 – 90 days	775	11,336
Over 90 days	<u>849</u>	<u>–</u>
	20,915	27,672
Refundable earnest money (<i>Note</i>)	390,000	–
Other debtors, deposits and prepayments	<u>18,695</u>	<u>10,608</u>
	<u>429,610</u>	<u>38,280</u>

Note: In June 2005, a wholly-owned subsidiary of the Company and an independent third party (the “Vendor”) signed a non-binding letter of intent with a view of negotiating a possible acquisition from the Vendor of 50% of its ownership and interest in certain land located in Macau which is initially intended for redevelopment purposes, at an initial consideration of HK\$495 million. Upon signing of the letter of intent, an amount of HK\$10 million was paid by the Group as refundable earnest money.

In addition, further amounts of refundable earnest money of HK\$230 million and HK\$150 million, were paid separately by the Group with a view of negotiating possible acquisitions of ownership and interest in certain land located in Macau and properties located in the PRC.

On completion of the above possible acquisitions, the Company intends to hold the properties as investment properties.

No formal agreement in respect of the possible acquisitions has been entered into up to the date of the interim report. In the opinion of the directors of the Company, the possible acquisitions may or may not materialise, therefore, the refundable earnest money is classified as current assets accordingly.

12. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the balance sheet date:

	30.9.2005	31.3.2005
	<i>HK\$'000</i>	<i>(restated)</i> <i>HK\$'000</i>
0 – 60 days	39,625	20,206
61 – 90 days	4,100	20,037
Over 90 days	8,857	4,470
	<hr/>	<hr/>
	52,582	44,713
Other creditors and accrued expenses	24,563	18,059
	<hr/>	<hr/>
	77,145	62,772
	<hr/> <hr/>	<hr/> <hr/>

13. CONVERTIBLE NOTE PAYABLES

On 23rd February, 2005, the Company issued HK\$100 million 2% unsecured convertible notes due 2008 at conversion price of HK\$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK\$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the period from 1st October, 2004 to 31st March, 2005 and during the six months ended 30th September, 2005, HK\$10 million and HK\$20 million 2% unsecured convertible notes due 2008 were converted into 23,809,520 and 47,619,046 ordinary shares, respectively, of HK\$0.01 each in the capital of the Company at conversion price of HK\$0.42.

On 8th April, 2005, the Company entered into seven subscription agreements with seven subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with two subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement were not inter-conditional on each other.

Of the nine subscribers, seven of them were subscribers whose funds were managed by global asset management firms (the “**Fund Subscribers**”), with the remaining two subscribers being Loyal Concept Limited (“**Loyal Concept**”) and Kopola Investment Company Limited (“**Kopola**”). Pursuant to the subscription agreements, the Fund Subscribers in aggregate, Loyal Concept and Kopola had conditionally agreed to subscribe by cash for HK\$956 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the subscription agreements (the “**Subscription Convertible Notes**”) with principal amounts of HK\$356 million, HK\$450 million and HK\$150 million, respectively (the “**Subscription**”). Loyal Concept is an indirect wholly-owned subsidiary of Hanny Holdings Limited (“**Hanny**”), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange. Loyal Concept and Hanny were not connected

persons of the Company. Kopola is 50% held by Mr. Ho Hau Chong, Norman (“**Mr. Ho**”), the deputy chairman and non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho was a connected person of the Company under Rule 14A.11 of the Listing Rules on the Stock Exchange, Kopola was regarded as a connected person of the Company.

Pursuant to the placing agreement, the placing agent would procure, on a best effort basis, no less than six places to subscribe by cash for HK\$44 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company (the “**Placing Convertible Notes**”) pursuant to the placing agreement with a principal amount of HK\$44 million (the “**Placing**”). The terms of the Subscription Convertible Notes and Placing Convertible Notes are identical.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK\$0.44 per ordinary share of HK\$0.01 each in the share capital of the Company (subject to adjustment), a total of 2,172,727,272 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Subscription Convertible Notes will be issued.

Upon full conversion of the Placing Convertible Notes at the initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Placing Convertible Notes, will be issued.

The Subscription and the Placing completed on 11th August, 2005. The total gross proceeds from the Subscription and the Placing amounted to HK\$956 million and HK\$44 million, respectively. Therefore, the total gross proceeds from the Subscription and the Placing amounted to HK\$1,000 million. After deducting related expenses of approximately HK\$11 million, approximately HK\$989 million will be used to finance the expansion of the investment property portfolio of the Company.

As at 30th September 2005, no Subscription Convertible Notes and Placing Convertible Notes had been converted.

14. DEFERRED TAXATION

The following are the major deferred tax liability (asset) provided for and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Deferred development costs <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
At 31st March, 2005	2,533	353	(2,886)	–
(Credit) charge to income for the period	(1,347)	180	1,167	–
At 30th September, 2005	<u>1,186</u>	<u>533</u>	<u>(1,719)</u>	<u>–</u>

At 30th September, 2005, the Group has unused tax losses of HK\$680,532,000 (31st March, 2005: HK\$679,816,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$9,823,000 (31st March, 2005: HK\$16,492,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$670,709,000 (31st March, 2005: HK\$663,324,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

15. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1st April, 2005 and 30th September, 2005	<u>40,000,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>		
At 1st April, 2005	360,995,507	3,610
Conversion of convertible notes	<u>47,619,046</u>	<u>476</u>
At 30th September, 2005	<u>408,614,553</u>	<u>4,086</u>

16. OPERATING LEASE COMMITMENTS

The Group as lessee

	Six months ended	
	30.9.2005 HK\$'000	30.9.2004 HK\$'000
Property rentals paid by the Group during the period in respect of:		
Minimum lease payments	11,244	7,812
Contingent rents	<u>3,571</u>	<u>1,421</u>
	<u>14,815</u>	<u>9,233</u>

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

	30.9.2005 HK\$'000	31.3.2005 HK\$'000
Within one year	28,491	19,280
In the second to fifth year inclusive	<u>28,080</u>	<u>18,710</u>
	<u>56,571</u>	<u>37,990</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises, factory premises and outlets. Leases are negotiated for an average term of three years and rentals are either fixed or, in addition to the fixed rentals, contingent rental based on a fixed percentage of the monthly gross turnover of the outlets.

17. ACQUISITION OF A SUBSIDIARY

On 20th September, 2005, the Group acquired the entire issued share capital of China-HK International Finance Limited for a cash consideration of approximately HK\$35,000. This transaction has been accounted for using the purchase method of accounting. The net asset acquired in the transaction mainly represented rental deposit of approximately HK\$22,000. The newly acquired subsidiary did not make any significant contribution to turnover or did not have significant effect on loss before taxation of the Group during the period.

18. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors during the period was as follows:

	Six months ended	
	30.9.2005	30.9.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	<u>1,311</u>	<u>282</u>

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.



德勤·關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

26th April, 2006

The Directors
Cheung Tai Hong Holdings Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding Everight Investment Limited (“Everight”) and its subsidiaries (hereinafter collectively referred to as the “Everight Group”) for each of the three years ended 31st December, 2005 (the “Relevant Periods”) for inclusion in the circular dated 26th April, 2006 issued by Cheung Tai Hong Holdings Limited (the “Company”, the Company and its subsidiaries are hereinafter collectively referred to as the “Group”) in connection with a proposed acquisition by a wholly-owned subsidiary of the Company of the entire interest in Everight (the “Circular”).

Everight was incorporated on 11th August, 1992 in Hong Kong with limited liability and acts as an investment holding company. Its ultimate holding company is Green Label Investments Limited, a company established in the British Virgin Islands.

As at the date of this report, Everight has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by Everight		Principal activities
			Directly	Indirectly	
Smart Sharp Investment Limited (“Smart Sharp”) 卓駿投資有限公司	Hong Kong 25th January, 2002	HKD75,202,694 ordinary shares	63.03%	–	Investment holding
Donson (International) Development Limited (“Donson Development”) 東迅(國際)發展有限公司	Hong Kong 28th April, 1992	HKD85,297,692 ordinary shares	–	55.57%	Investment holding
Donson Golf Management Co. Ltd. (“Donson Golf”) 東迅高爾夫管理有限公司	Hong Kong 15th August, 2005	HKD10,000 ordinary shares	–	55.57%	Inactive
Guangzhou Panyu Golf & Country Club (“Panyu Golf”) 廣州番禺蓮花山高爾夫球度假俱樂部	People’s Republic of China (the “PRC”) 18th September, 1992	RMB42,900,000	–	36.12%	Development of golf resort and property development

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by Everight		Principal activities
			Directly	Indirectly	
Sanya Yalong Bayview Golf Garden Co. Ltd. ("Sanya Yalong") 三亞亞龍灣風景高爾夫文化公園有限公司	The PRC 6th June, 1999	RMB28,000,000	-	44.46%	Development and operation of golf resort and hotel
Vintage Hotel Limited ("Vintage Hotel") 偉迪斯酒店有限公司	British Virgin Islands 26th October, 1995	HKD23,595,000 ordinary shares	-	55.57%	Development and operation of hotel and operation of golf resort
Vintage Golf Holdings Limited ("Vintage Golf")	British Virgin Islands 1st March, 2001	HKD19,010,000 ordinary shares	-	55.57%	Inactive
番禺偉迪斯高爾夫房地產有限公司 ("偉迪斯")	The PRC 30th May, 2000	RMB19,550,000	-	36.03%	Property development
廣州市蓮翠房產物業管理有限公司("蓮翠")	The PRC 17th April, 2003	RMB500,000	-	36.12%	Property management

Note: Panyu Golf, Sanya Yalong, 偉迪斯 and 蓮翠 are sino foreign equity joint ventures established in the PRC.

All companies now comprising the Everight Group have adopted 31st December as the financial year end date. The statutory financial statements of Panyu Golf, Sanya Yalong, 偉迪斯 and 蓮翠 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited in accordance with Independent Auditing Standards for Chinese Certified Public Accountants by the following Certified Public Accountants registered in the PRC.

Name of company	Financial year/period	Name of auditors
Panyu Golf	Each of the three years ended 31st December, 2005	廣州業勤會計師事務所有限公司 (Guangzhou YeQin Certified Public Accountants Co., Ltd.)
Sanya Yalong	Each of the three years ended 31st December, 2005	三亞海城會計師事務所 (Sanya Haicheng Certified Public Accountants)
偉迪斯	Each of the three years ended 31st December, 2005	廣州市德信會計師事務所有限公司 (Guangzhou Decent Certified Public Accountants Co., Ltd.)

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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Name of company	Financial year/period	Name of auditors
蓮翠	The period from 17th April, 2003 (date of incorporation) to 31st December, 2003 and each of the two years ended 31st December, 2005	廣州市德信會計師事務所有限公司 (Guangzhou Decent Certified Public Accountants Co., Ltd.)

For the purpose of this report, Panyu Golf, Sanya Yalong, 偉迪斯 and 蓮翠 have also prepared management accounts for the year ended 31st December, 2005 in accordance with the accounting principles generally accepted in Hong Kong (the "HKFRS management accounts"). We have undertaken audit procedures on the HKFRS management accounts in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The financial statements of Vintage Hotel and Vintage Golf, the consolidated financial statements of Everight, Smart Sharp and Donson Development for each of two years ended 31st December, 2004 which were prepared in accordance with the accounting principles generally accepted in Hong Kong were audited by Ronald W.F. Ko & Co., certified public accountants registered in Hong Kong.

However, no audited financial statements of Vintage Hotel and Vintage Golf have been prepared for the year ended 31st December, 2005 as there is no statutory audit requirements in the country of their incorporation. For the purpose of this report, we have, however, reviewed all relevant transactions of Vintage Hotel and Vintage Golf.

For the purpose of this report, we have audited in accordance with Hong Kong Standards on Auditing issued by the HKICPA, the consolidated financial statements of Everight for the year ended 31st December, 2005 which have been prepared in accordance with the accounting principles generally accepted in Hong Kong including the new HKFRSs as defined in note 2 below.

We have examined the audited financial statements and management accounts of all of the companies now comprising the Everight Group (the "Underlying Financial Statements") for the Relevant Periods or since their respective dates of incorporation or establishment to 31st December, 2005 in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Everight Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, after making such adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Circular.

The preparation of the Underlying Financial Statements is the responsibility of the directors of the respective companies, who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Everight Group and Everight as at 31st December, 2003, 2004 and 2005 and of the consolidated results and cash flows of the Everight Group for each of the three years ended 31st December, 2005.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	<i>Notes</i>	Year ended 31st December,		
		2003	2004	2005
		<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Continuing operations				
Turnover	6	43,803	46,790	61,337
Cost of sales/services		<u>(13,600)</u>	<u>(9,511)</u>	<u>(16,481)</u>
Gross profit		30,203	37,279	44,856
Other income	8	7,229	7,683	2,929
Administrative expenses		(34,793)	(34,826)	(50,001)
Finance costs	9	<u>(5,592)</u>	<u>(4,611)</u>	<u>(7,800)</u>
(Loss) profit before tax	10	(2,953)	5,525	(10,016)
Taxation	12	<u>618</u>	<u>(8,105)</u>	<u>(2,619)</u>
Loss for the year from continuing operations		(2,335)	(2,580)	(12,635)
Discontinued operations				
(Loss) profit for the year from discontinued operations	13	<u>(815)</u>	<u>56</u>	<u>4,129</u>
Loss for the year		<u><u>(3,150)</u></u>	<u><u>(2,524)</u></u>	<u><u>(8,506)</u></u>
Attributable to:				
Equity holders of the parent		(295)	334	(2,949)
Minority interests		<u>(2,855)</u>	<u>(2,858)</u>	<u>(5,557)</u>
		<u><u>(3,150)</u></u>	<u><u>(2,524)</u></u>	<u><u>(8,506)</u></u>
Dividends	14	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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CONSOLIDATED BALANCE SHEETS

		As at 31st December,		
		2003	2004	2005
		<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
	<i>Notes</i>			
NON-CURRENT ASSETS				
Property, plant and equipment	16	169,162	202,205	201,871
Prepaid lease payments	17	100,118	98,951	99,091
Pomelo trees	18	4,396	5,276	–
Loan receivables	19	331	140	125
Negative goodwill	20	(56,481)	(50,126)	–
Deferred tax assets	35	136	909	1,520
		217,662	257,355	302,607
CURRENT ASSETS				
Inventories	22	12,353	10,956	4,273
Loan receivables	19	104	93	18
Trade and other receivables	23	13,534	20,204	18,607
Prepaid lease payments	17	2,249	2,274	2,331
Amounts due from customers for contract works	24	5,346	–	–
Amounts due from related companies	25	10	33	172
Amount due from a director	26	175	189	67
Amount due from a minority shareholder of a subsidiary	27	2	2	2
Amount due from a shareholder	28	19	38	33
Tax recoverable		250	251	257
Bank balances and cash	29	25,796	5,772	12,112
		59,838	39,812	37,872
CURRENT LIABILITIES				
Trade and other payables	30	18,173	30,938	39,021
Amount due to ultimate holding company	31	12,690	12,455	–
Amounts due to related companies	25	13,658	15,117	15,837
Amount due to a director	26	3,525	2,233	3,709
Amounts due to minority shareholders of subsidiaries	27	4,776	4,949	4,429
Amount due to a shareholder	28	18	18	18
Unsecured loan from a minority shareholder of a subsidiary	32	–	4,695	3,364
Unsecured loans from related companies	33	1,500	11,502	6,538
Bank and other borrowings – due within one year	34	49,231	43,192	40,423
Tax liabilities		10,398	14,071	12,189
		113,969	139,170	125,528

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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		As at 31st December,		
		2003	2004	2005
		<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
	<i>Notes</i>			
NET CURRENT LIABILITIES		<u>(54,131)</u>	<u>(99,358)</u>	<u>(87,656)</u>
TOTAL ASSETS LESS				
CURRENT LIABILITIES		<u>163,531</u>	<u>157,997</u>	<u>214,951</u>
NON-CURRENT LIABILITIES				
Unsecured loans from related companies	33	10,000	5,000	10,837
Bank and other borrowings				
– due after one year	34	18,755	15,023	17,303
Deferred tax liabilities	35	<u>797</u>	<u>5,936</u>	<u>7,664</u>
		<u>29,552</u>	<u>25,959</u>	<u>35,804</u>
		<u><u>133,979</u></u>	<u><u>132,038</u></u>	<u><u>179,147</u></u>
CAPITAL AND RESERVES				
Share capital	36	47,413	47,413	47,413
Reserves		<u>(8,390)</u>	<u>(7,768)</u>	<u>23,201</u>
Equity attributable to equity holders				
of the parent		39,023	39,645	70,614
Minority interests		<u>94,956</u>	<u>92,393</u>	<u>108,533</u>
		<u><u>133,979</u></u>	<u><u>132,038</u></u>	<u><u>179,147</u></u>

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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BALANCE SHEETS

		As at 31st December,		
		2003	2004	2005
		<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
	<i>Notes</i>			
NON-CURRENT ASSET				
Investments in subsidiaries	21	47,403	47,403	47,403
CURRENT ASSETS				
Amount due from a subsidiary		–	–	7,463
CURRENT LIABILITIES				
Other payables		11	22	49
Amount due to a related company	25	87	99	110
Amount due to a shareholder	28	18	18	18
Bank and other borrowings	34	–	–	7,500
		116	139	7,677
NET CURRENT LIABILITIES		(116)	(139)	(214)
		47,287	47,264	47,189
CAPITAL AND RESERVES				
Share capital	36	47,413	47,413	47,413
Reserves	37	(126)	(149)	(224)
		47,287	47,264	47,189

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					Minority interests HKD'000	Total HKD'000
	Share capital HKD'000	Translation reserve HKD'000	Accumulated (losses) profits HKD'000	Total HKD'000			
At 1st January, 2003, originally stated	47,413	-	(5,017)	42,396	98,114	140,510	
Effect of changes in accounting policies (<i>note 2A</i>)	-	242	(2,969)	(2,727)	-	(2,727)	
At 1st January, 2003, restated	47,413	242	(7,986)	39,669	98,114	137,783	
Exchange differences arising on translation of foreign operations and expense recognised directly in equity	-	(351)	-	(351)	(303)	(654)	
Loss for the year	-	-	(295)	(295)	(2,855)	(3,150)	
Total recognised income and expense for the year	-	(351)	(295)	(646)	(3,158)	(3,804)	
At 31st December, 2003	47,413	(109)	(8,281)	39,023	94,956	133,979	
Exchange differences arising on translation of foreign operations and income recognised directly in equity	-	288	-	288	295	583	
Profit (loss) for the year	-	-	334	334	(2,858)	(2,524)	
Total recognised income and expense for the year	-	288	334	622	(2,563)	(1,941)	
At 31st December, 2004	47,413	179	(7,947)	39,645	92,393	132,038	
Effects of changes in accounting policies (<i>note 2A</i>)	-	-	31,596	31,596	18,530	50,126	
At 1st January, 2005	47,413	179	23,649	71,241	110,923	182,164	
Exchange differences arising on translation of foreign operations and income recognised directly in equity	-	2,322	-	2,322	3,167	5,489	
Loss for the year	-	-	(2,949)	(2,949)	(5,557)	(8,506)	
Total recognised income and expense for the year	-	2,322	(2,949)	(627)	(2,390)	(3,017)	
At 31st December, 2005	47,413	2,501	20,700	70,614	108,533	179,147	

CONSOLIDATED CASH FLOW STATEMENTS

	<i>Notes</i>	As at 31st December,		
		2003 <i>HKD'000</i>	2004 <i>HKD'000</i>	2005 <i>HKD'000</i>
OPERATING ACTIVITIES				
Loss for the year		(3,150)	(2,524)	(8,506)
Adjustments for:				
Income tax expense		(618)	8,105	2,619
Interest expenses		5,592	4,611	7,800
Interest income		(224)	(80)	(67)
Depreciation and amortisation				
of property, plant and equipment		9,531	10,176	12,518
Release of prepaid lease payments				
to income statement		1,841	1,839	2,112
Release of negative goodwill				
to income statement		(6,355)	(6,355)	–
Write-off of bad and doubtful debts		112	–	2,135
Write-off of pomelo trees		–	–	490
Allowance for bad and doubtful debts		1,240	1,313	898
Written back of allowance for inventories		–	–	(57)
Loss (gain) arising from changes				
in fair value				
less estimated point-of-sale cost				
of pomelo trees		324	(334)	(2,753)
Loss (gain) on disposal and write-off				
of property, plant and equipment		97	(40)	78
Gain on disposal of subsidiaries		–	–	(1,991)
		<hr/>	<hr/>	<hr/>
Operating cash flows before movements				
in working capital		8,390	16,711	15,276
Decrease in inventories		6,332	1,536	5,393
Increase in trade and other receivables		(3,618)	(7,983)	(1,438)
Decrease in amounts due from				
customers for contract works		486	5,346	–
Increase in trade and other payables		313	12,765	8,397
Increase in amounts due from related companies		(10)	(23)	(139)
Decrease (increase) in amount due from a director		221	(14)	122
(Increase) decrease in amount due from a shareholder		(19)	(19)	5
		<hr/>	<hr/>	<hr/>
Cash generated from operations		12,095	28,319	27,616
Enterprise income tax paid		(385)	(67)	(3,390)
Interest paid		(5,797)	(5,744)	(6,963)
		<hr/>	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES		5,913	22,508	17,263
		<hr/>	<hr/>	<hr/>

	Notes	As at 31st December,		
		2003 HKD'000	2004 HKD'000	2005 HKD'000
INVESTING ACTIVITIES				
Interest received		224	80	67
Proceeds from disposal of property, plant and equipment		2,663	622	1,472
(Increase in) repayment of loan receivables		(435)	202	90
Purchase of property, plant and equipment		(19,961)	(41,874)	(10,191)
Additions to prepaid lease payments		(4,179)	(997)	(124)
Additions to pomelo trees		(748)	(678)	(172)
Decrease in cash and cash equivalents from disposal of subsidiaries (net of cash and cash equivalents disposed of)	38	—	—	(22)
NET CASH USED IN INVESTING ACTIVITIES		(22,436)	(42,645)	(8,880)
FINANCING ACTIVITIES				
New bank and other borrowings raised		78,477	30,966	14,308
Loan from related companies		10,000	5,002	—
Advance from (repayment to) ultimate holding company		4,653	(235)	(315)
Advance from (repayment to) minority shareholders of subsidiaries		764	173	(520)
Advance from a shareholder		18	—	—
Loan from (repayment to) a minority shareholder of a subsidiary		—	4,695	(1,331)
Repayment of bank and other borrowings		(41,823)	(40,818)	(15,962)
Advance to related companies		(4,525)	—	—
(Repayment to) advance from related companies		(5,314)	1,459	732
(Repayment to) advance from a director		(3,256)	(1,292)	1,476
NET CASH FROM (USED IN) FINANCING ACTIVITIES		38,994	(50)	(1,612)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		22,471	(20,187)	6,771
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,771	25,796	5,772
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		554	163	(431)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		25,796	5,772	12,112

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Everight was incorporated on 11th August, 1992 in Hong Kong with limited liability and acts as an investment holding company. The address of the registered office and the principal place of business of Everight is at 7th Floor, First Commercial Building, 33-35 Leighton Road, Hong Kong. Its ultimate holding company is Green Label Investments Limited, a company established in the British Virgin Islands.

The principal activities of the Everight Group are development and operation of golf resort and hotel and property development.

On 8th October, 2004, Hainan Golf Jet Tour Limited, a subsidiary of Everight which was incorporated in Hong Kong, was deregistered. On 31st October, 2005, Everight disposed of the entire interest in Green Farm Limited 綠怡果園有限公司 (“Green Farm”), a company incorporated in Hong Kong on 18th August, 2000 and its subsidiary, 廣東曲江綠怡果園有限公司 (“曲江果園”), a company established in the PRC on 25th October, 1999.

The financial information has been prepared on a going concern basis because the Group, upon completion of the proposed acquisition, has agreed to provide adequate funds to enable the Everight Group to meet its financial obligations, as they fall due for the foreseeable future.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the year ended 31st December, 2005, the Everight Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Everight Group’s accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented.

Business combinations

In 2005, the Everight Group has applied HKFRS 3 “Business Combinations” which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Everight Group are summarised below:

Excess of the Everight Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)

In accordance with HKFRS 3, any excess of the Everight Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cost of acquisition (“discount on acquisition”) is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Everight Group derecognised all negative goodwill on 1st January, 2005. Corresponding adjustments to the Everight Group’s accumulated profits of HKD31,596,000 and minority interest of HKD18,530,000, respectively, have been made.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Everight Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and building elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2A for the financial impact).

Pomelo trees

In previous years, the pomelo trees under non-current assets were carried at cost less amortisation over their estimated useful life. In accordance with HKAS 41 "Agriculture", they should be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs. This adoption of new accounting policy has been applied retrospectively (see note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 on the results for the current and prior years are as follows:

	2003 HKD'000	2004 HKD'000	2005 HKD'000
Decrease in negative goodwill released to income	-	-	6,355
(Increase) decrease in fair value of pomelo trees (credited) debited to the income statement	<u>324</u>	<u>(334)</u>	<u>(2,753)</u>

The cumulative effect of the application of the new HKFRSs to the Everight Group's equity on 1st January, 2003 is summarised below:

	As at 1st January, 2003 (originally stated) HKD'000	Adjustments HKD'000	As at 1st January, 2003 (restated) HKD'000
<i>Impact of HKAS 41:</i>			
Accumulated losses	(5,017)	(2,969)	(7,986)
Translation reserve	<u>-</u>	<u>242</u>	<u>242</u>
	<u>(5,017)</u>	<u>(2,727)</u>	<u>(7,744)</u>

The cumulative effect of the application of the new HKFRSs on 31st December, 2003 are summarised below:

	As at 31st December, 2003 (originally stated) HKD'000	Adjustments HKD'000	As at 31st December, 2003 (restated) HKD'000
<i>Impact of HKAS 17:</i>			
Property, plant and equipment	271,529	(102,367)	169,162
Prepaid lease payments	-	102,367	102,367
<i>Impact of HKAS 41:</i>			
Pomelo trees	<u>7,434</u>	<u>(3,038)</u>	<u>4,396</u>
Total effects on assets	<u>278,963</u>	<u>(3,038)</u>	<u>275,925</u>
Accumulated (losses) profits	(4,988)	(3,293)	(8,281)
Translation reserve	<u>(364)</u>	<u>255</u>	<u>(109)</u>
	<u>(5,352)</u>	<u>(3,038)</u>	<u>(8,390)</u>

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

The cumulative effect of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) HKD'000	Adjustments HKD'000	As at 31st December, 2004 (restated) HKD'000	Adjustments HKD'000	As at 1st January, 2005 (restated) HKD'000
<i>Impact of HKAS 17:</i>					
Property, plant and equipment	303,430	(101,225)	202,205	–	202,205
Prepaid lease payments	–	101,225	101,225	–	101,225
<i>Impact of HKAS 41:</i>					
Pomelo trees	7,960	(2,684)	5,276	–	5,276
<i>Impact of HKFRS 3:</i>					
Derecognition of negative goodwill	(50,126)	–	(50,126)	50,126	–
Total effects on assets	<u>261,264</u>	<u>(2,684)</u>	<u>258,580</u>	<u>50,126</u>	<u>308,706</u>
Accumulated (losses) profits	(4,984)	(2,963)	(7,947)	31,596	23,649
Minority interests	92,393	–	92,393	18,530	110,923
Translation reserve	(100)	279	179	–	179
Total effects on equity	<u>87,309</u>	<u>(2,684)</u>	<u>84,625</u>	<u>50,126</u>	<u>134,751</u>

The Everight Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of Everight anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Everight Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	The effects of changes in foreign exchange rates-net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st January, 2006.

³ Effective for annual periods beginning on or after 1st December, 2005.

⁴ Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for pomelo trees, which are measured at fair values, as explained in the accounting policies set out below. The Financial Information have been prepared in accordance with the following accounting policies which conform with the accounting principles generally accepted in Hong Kong.

Basis of consolidation

The Financial Information incorporates the financial statements of Everight and entities controlled by Everight. Control is achieved where Everight has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Everight Group.

All significant intra-group transactions, balances, income and expenses within the Everight Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Everight Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Everight Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Everight Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions").

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

As explained in note 2A above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Everight Group's accumulated profits and minority interests.

Interest in subsidiaries

Interests in subsidiaries are included in Everight's balance sheet at cost less any identified impairment loss.

Revenue recognition

Revenue from sale of properties in the ordinary course of business is recognised when the significant risks and rewards of ownership of the properties are transferred to the buyers.

Services income in relation to hotel and golf operations are recognised when the services are provided.

Sales of goods are recognised when goods are delivered and title has passed.

Golf membership fees are recognised upon approval of members' applications by the management committee of the golf operations.

Golf subscription fees are recognised on an accrual basis.

Golf membership transfer fees are recognised upon approval of the transfer by the management committee of the golf operations.

Revenue from construction contract is recognised on the percentage of completion method, measured by reference to the estimated total contract costs.

A gain or loss arising in initial recognition of pomelo trees at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sales costs of pomelo trees is dealt with in the income statement when it arises.

A gain or loss arising on initial recognition of pomelos at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

Building management fee income is recognised on an appropriate basis over the relevant period in which the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payments and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Operating leases

Rentals payable under operating leases are charged to the profit or loss on a straight line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Pomelo trees

Pomelo trees are on initial recognition and at each balance sheet date measured at their fair values less estimated point-of-sale costs. The fair value of pomelo trees is determined based on market prices of pomelo trees of similar age.

Inventories and pomelos

Hotel inventories and other inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Inventories of unsold properties are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to the unsold properties.

At the point of harvest, pomelos are stated at their fair values less estimated point-of-sale costs. The gain or loss arising from a change in fair value less estimated point-of-sale costs at the point of harvest is included in the profit or loss for the period in which it arises. The fair values of pomelos are determined based on market prices in the local area.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Everight Group's foreign operations are translated into the presentation currency of Everight (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Everight Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Loans and receivables

The Everight Group's financial assets are classified as loans and receivables. Loans and receivables (including loan receivables, trade and other receivables, amounts due from related companies, amount due from a director, amount due from a minority shareholder of a subsidiary, amount due from a shareholder and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amount due to ultimate holding company, amounts due to related companies, amount due to a director, amounts due to minority shareholders of subsidiaries, amount due to a shareholder, unsecured loan from a minority shareholder of a subsidiary, unsecured loans from related companies and bank and other borrowings are subsequently measured at amortised cost, using effective interest rate method.

Equity instruments

Equity instruments issued by Everight Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Everight Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Everight Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Impairment losses

At each balance sheet date, the Everight Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**Key sources of estimation uncertainty**

The key assumption concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are discussed below.

Depreciation and amortisation of property, plant and equipment

The Everight Group's net book values of property, plant and equipment as at 31st December, 2003, 2004 and 2005 were HKD169,162,000, HKD202,205,000 and HKD201,871,000 respectively. The Everight Group depreciates the property, plant and equipment, after taking into account their estimated residual value, on a straight line basis over their estimated useful lives as set out in note 16. The estimated useful lives and dates that the Everight Group places the assets into productive use reflect the directors' estimate of the periods that the Everight Group intends to derive future economic benefits from the use of the Everight Group's property, plant and equipment.

Allowance on trade receivables

The Everight Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Everight Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within the Everight Group's expectations and the provisions established, there is no guarantee that it will continue to experience the same credit loss that it has had in the past.

Inventory valuation method

Inventory is valued using the cost method, which values inventory at the lower of cost or net realisable value. Cost is determined using the weighted average method. The estimated net realisable value is generally merchandise selling price less selling expenses. The Everight Group reviews its inventory levels in order to identify slow-moving merchandise and use markdowns to clear merchandise.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Everight Group's major financial instruments include bank deposit, trade receivables and trade payables, unsecured loan from a minority shareholder of a subsidiary, unsecured loans from related companies and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank loans of the Everight Group are denominated in foreign currencies (see note 34). The Everight Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Everight Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2003, 2004 and 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Everight Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Everight Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Everight consider that the Everight Group's credit risk is significantly reduced.

Certain bank balances and cash are denominated in Renminbi (see note 29) which were subject to foreign exchange control. The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

The Everight Group expects to have the financial support by the Company to maintain continuity of funding.

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6. TURNOVER

Turnover represents the net amounts received and receivable for hotel operations, sales of properties, revenue from construction contracts, golf membership fees, golf subscription fees and handling fees, green fees, practice balls and cart rental, food and beverage sales, pro shop sales, building management fee income and sales of pomelos.

	Year ended 31st December,		
	2003	2004	2005
	HKD'000	HKD'000	HKD'000
<i>Continuing operations</i>			
Hotel operations	4,499	4,228	7,050
Sales of properties	10,689	8,955	9,027
Revenue from construction contracts	1,057	835	–
Golf membership fees, golf subscription fees and handling fees	7,055	11,847	16,295
Green fees, practice balls and cart rental	16,154	17,660	30,194
Food and beverage sales	6,660	6,627	7,703
Pro shop sales	967	965	1,397
Building management fee income	980	1,001	1,407
Less: Sales and other taxes	(4,258)	(5,328)	(11,736)
	43,803	46,790	61,337
<i>Discontinued operations</i>			
Sales of pomelos	894	605	434
	44,697	47,395	61,771

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Everight Group is currently organised into two operating divisions, namely, property and golf resort and hotel. These divisions are the basis on which the Everight Group reports its primary segment information.

Principal activities are as follows:

Property	– Property development and sales
Golf resort and hotel	– Development and operation of golf resort and hotel

The Group was also involved in the production and sales of pomelos. That operation was discontinued on 31st October, 2005 (see note 13).

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

For the year ended 31st December, 2003

	Continuing operations				Discontinued operations Production and sales of pomelo	
	Property HKD'000	Golf resort and hotel HKD'000	Others HKD'000	Sub-total HKD'000	HKD'000	Total HKD'000
TURNOVER						
External sales	10,949	31,797	1,057	43,803	894	44,697
RESULTS						
Segment results	(4,417)	1,034	(13)	(3,396)	(815)	(4,211)
Unallocated corporate expenses				(320)	-	(320)
Release of negative goodwill to income statement				6,355	-	6,355
Finance costs				(5,592)	-	(5,592)
Loss before tax				(2,953)	(815)	(3,768)
Taxation				618	-	618
Loss for the year				(2,335)	(815)	(3,150)
ASSETS						
Segment assets	12,535	283,654	5,346	301,535	6,058	307,593
Negative goodwill				(56,481)	-	(56,481)
Unallocated corporate assets				26,331	57	26,388
Total assets						277,500
LIABILITIES						
Segment liabilities	2,786	14,774	71	17,631	542	18,173
Unallocated corporate liabilities				125,348	-	125,348
Total liabilities						143,521
OTHER INFORMATION						
Write-off of bad and doubtful debts	-	112	-	112	-	112
Allowance for bad and doubtful debts	-	1,240	-	1,240	-	1,240
Release of prepaid lease payments to income statement	-	1,841	-	1,841	-	1,841
Capital expenditure	83	24,249	-	24,332	13	24,345
Depreciation and amortisation	19	9,323	-	9,342	189	9,531
Loss on disposal and write-off of property, plant and equipment	-	-	46	46	51	97
Loss arising from changes in fair value less estimated point-of-sale costs of pomelo trees	-	-	-	-	324	324

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

For the year ended 31st December, 2004

	Continuing operations			Sub-total	Discontinued operations Production and sales of pomelo	Total
	Property HKD'000	Golf resort and hotel HKD'000	Others HKD'000	HKD'000	HKD'000	HKD'000
TURNOVER						
External sales	9,351	36,604	835	46,790	605	47,395
	<u>9,351</u>	<u>36,604</u>	<u>835</u>	<u>46,790</u>	<u>605</u>	<u>47,395</u>
RESULTS						
Segment results	(623)	4,335	86	3,798	56	3,854
	<u>(623)</u>	<u>4,335</u>	<u>86</u>			
Unallocated corporate expense				(17)	-	(17)
Release of negative goodwill to income statement				6,355	-	6,355
Finance costs				(4,611)	-	(4,611)
				<u>(4,611)</u>	<u>-</u>	<u>(4,611)</u>
Profit before tax				5,525	56	5,581
Taxation				(8,105)	-	(8,105)
				<u>(8,105)</u>	<u>-</u>	<u>(8,105)</u>
(Loss) profit for the year				(2,580)	56	(2,524)
				<u>(2,580)</u>	<u>56</u>	<u>(2,524)</u>
ASSETS						
Segment assets	11,208	321,720	3	332,931	7,162	340,093
Negative goodwill				(50,126)	-	(50,126)
Unallocated corporate assets				6,937	263	7,200
				<u>6,937</u>	<u>263</u>	<u>7,200</u>
Total assets						<u>297,167</u>
LIABILITIES						
Segment liabilities	1,759	28,631	61	30,451	487	30,938
Unallocated corporate liabilities				134,191	-	134,191
				<u>134,191</u>	<u>-</u>	<u>134,191</u>
Total liabilities						<u>165,129</u>
OTHER INFORMATION						
Allowance for bad and doubtful debts	-	1,313	-	1,313	-	1,313
Release of prepaid lease payments to income statement	-	1,839	-	1,839	-	1,839
Capital expenditure	28	43,970	-	43,998	6	44,004
Depreciation and amortisation	30	9,971	-	10,001	175	10,176
Gain arising from changes in fair value less estimated point-of-sale costs of pomelo trees	-	-	-	-	334	334
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334</u>	<u>334</u>

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

For the year ended 31st December, 2005

	Continuing operations				Discontinued operations Production and sales of pomelo	
	Property HKD'000	Golf resort and hotel HKD'000	Others HKD'000	Sub-total HKD'000	HKD'000	Total HKD'000
TURNOVER						
External sales	9,476	51,861	-	61,337	434	61,771
RESULTS						
Segment results	(5,353)	3,206	(103)	(2,250)	2,138	(112)
Unallocated corporate income				34	-	34
Gain on disposal of subsidiaries				-	1,991	1,991
Finance costs				(7,800)	-	(7,800)
(Loss) profit before tax				(10,016)	4,129	(5,887)
Taxation				(2,619)	-	(2,619)
(Loss) profit for the year				(12,635)	4,129	(8,506)
ASSETS						
Segment assets	6,692	319,624	36	326,352	-	326,352
Unallocated corporate assets				14,127	-	14,127
Total assets						340,479
LIABILITIES						
Segment liabilities	2,507	36,428	86	39,021	-	39,021
Unallocated corporate liabilities				122,311	-	122,311
Total liabilities						161,332
OTHER INFORMATION						
Write-off of bad and doubtful debts	-	2,135	-	2,135	-	2,135
Allowance for bad and doubtful debts	-	898	-	898	-	898
Release of prepaid lease payments to income statement	-	2,112	-	2,112	-	2,112
Capital expenditure	58	10,149	-	10,207	108	10,315
Depreciation and amortisation	30	12,328	-	12,358	160	12,518
Loss on disposal and write-off of property, plant and equipment	-	78	-	78	-	78
Gain arising from changes in fair value less estimated point-of-sale costs of pomelo trees	-	-	-	-	2,753	2,753

Geographical segments

During the Relevant Periods, over 90% of the Everight Group's operations and assets are located in the PRC and therefore no geographical segments is presented.

8. OTHER INCOME

	Continuing operations			Discontinued operations			Total		
	Year ended,			Year ended			Year ended		
	31st December,			31st December,			31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
<i>HKD'000</i>									
Interest income	224	80	67	-	-	-	224	80	67
Gain on disposal of property, plant and equipment	-	40	-	-	-	-	-	40	-
Release of negative goodwill to income statement	6,355	6,355	-	-	-	-	6,355	6,355	-
Written back of allowance for inventories	-	-	57	-	-	-	-	-	57
Others	650	1,208	2,805	69	33	36	719	1,241	2,841
	<u>7,229</u>	<u>7,683</u>	<u>2,929</u>	<u>69</u>	<u>33</u>	<u>36</u>	<u>7,298</u>	<u>7,716</u>	<u>2,965</u>

9. FINANCE COSTS

	Continuing operations			Discontinued operations			Total		
	Year ended,			Year ended			Year ended		
	31st December,			31st December,			31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
<i>HKD'000</i>									
Interest on:									
Bank borrowings wholly repayable within five years	2,282	2,752	3,473	-	-	-	2,282	2,752	3,473
Bank borrowings not wholly repayable within five years	205	1,133	-	-	-	-	205	1,133	-
Other borrowings not wholly repayable within five years	1,829	867	2,741	-	-	-	1,829	867	2,741
Loans from related parties wholly repayable within five years	1,481	992	1,586	-	-	-	1,481	992	1,586
Total borrowing costs	5,797	5,744	7,800	-	-	-	5,797	5,744	7,800
Less: amount capitalised	(205)	(1,133)	-	-	-	-	(205)	(1,133)	-
	<u>5,592</u>	<u>4,611</u>	<u>7,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,592</u>	<u>4,611</u>	<u>7,800</u>

Borrowing costs capitalised during each of the two years ended 31st December, 2004 arose on the general borrowing pool and are calculated by applying capitalisation rate of 6.34% to expenditure on qualifying assets.

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10. (LOSS) PROFIT BEFORE TAX

	Continuing operations			Discontinued operations			Total		
	Year ended,			Year ended			Year ended		
	31st December,			31st December,			31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
(Loss) profit before tax has been arrived at after charging (crediting):									
Staff costs, included directors' emoluments (<i>note 11</i>)	14,282	19,351	17,479	210	125	97	14,492	19,476	17,576
Retirement benefit scheme contributions	73	78	116	-	-	-	73	78	116
Total staff costs	14,355	19,429	17,595	210	125	97	14,565	19,554	17,692
Less: amount capitalised	(1,057)	(3,719)	(162)	-	-	-	(1,057)	(3,719)	(162)
	13,298	15,710	17,433	210	125	97	13,508	15,835	17,530
Auditors' remuneration	248	203	262	20	29	24	268	232	286
Release of prepaid lease payments to income statement	2,254	2,274	2,301	-	-	-	2,254	2,274	2,301
Less: amount capitalised	(413)	(435)	(189)	-	-	-	(413)	(435)	(189)
	1,841	1,839	2,112	-	-	-	1,841	1,839	2,112
Write-off of pomelo trees	-	-	-	-	-	490	-	-	490
Write-off of bad and doubtful debts	112	-	2,135	-	-	-	112	-	2,135
Allowance for bad and doubtful debts	1,240	1,313	898	-	-	-	1,240	1,313	898
Cost of inventories recognised as an expense	7,968	3,591	8,554	839	105	300	8,807	3,696	8,854
Depreciation and amortisation of property, plant and equipment	9,342	10,001	12,358	189	175	160	9,531	10,176	12,518
(Gain) loss arising from changes in fair value less estimated point-of-sale cost of pomelo trees	-	-	-	324	(334)	(2,753)	324	(334)	(2,753)
Loss on deregistration of a subsidiary	-	45	-	-	-	-	-	45	-
Loss on disposal and write-off of property, plant and equipment	46	-	78	51	-	-	97	-	78

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11. DIRECTORS' AND EMPLOYEES' REMUNERATIONS

Directors' remuneration

The emoluments paid or payable to each of the two (2003 and 2004: two) directors were as follows:

	Lai Tsan Tung, David <i>HKD'000</i>	Chan Jink Chou, Eric <i>HKD'000</i>	2003 Total <i>HKD'000</i>
Fees	-	-	-
Other emoluments			
Salaries and other benefits	1,200	53	1,253
	<u>1,200</u>	<u>53</u>	<u>1,253</u>
	1,200	53	1,253

	Lai Tsan Tung, David <i>HKD'000</i>	Chan Jink Chou, Eric <i>HKD'000</i>	2004 Total <i>HKD'000</i>
Fees	-	-	-
Other emoluments			
Salaries and other benefits	600	79	679
	<u>600</u>	<u>79</u>	<u>679</u>
	600	79	679

	Lai Tsan Tung, David <i>HKD'000</i>	Chan Jink Chou, Eric <i>HKD'000</i>	2005 Total <i>HKD'000</i>
Fees	325	175	500
Other emoluments			
Salaries and other benefits	650	80	730
	<u>975</u>	<u>255</u>	<u>1,230</u>
	975	255	1,230

Employees' emoluments

The five highest paid individuals include two (2003 and 2004: one) directors of Everight, details of whose emoluments are set out above. Emoluments of the remaining three (2003 and 2004: four) highest paid individuals are as follows:

	Year ended 31st December,		
	2003 <i>HKD'000</i>	2004 <i>HKD'000</i>	2005 <i>HKD'000</i>
Salaries and other benefits	1,402	1,482	1,243
Contributions to retirement benefit schemes	24	32	10
	<u>1,426</u>	<u>1,514</u>	<u>1,253</u>
	1,426	1,514	1,253

The emoluments of each of the above highest paid individuals in the Everight Group during the Relevant Periods were below HKD1,000,000.

During the Relevant Periods, no emoluments were paid by the Everight Group to any of the directors of Everight or the five highest paid individuals as an inducement to join or upon joining the Everight Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

12. TAXATION

	Continuing operations			Discontinued operations			Total		
	Year ended,			Year ended			Year ended		
	31st December,			31st December,			31st December,		
	2003	2004	2005	2003	2004	2005	2003	2004	2005

HKD'000 HKD'000 HKD'000 HKD'000 HKD'000 HKD'000 HKD'000 HKD'000 HKD'000

The (credit) charge comprises:

Enterprise Income Tax in the PRC	577	3,739	1,502	-	-	-	577	3,739	1,502
Deferred tax (note 35)	(1,195)	4,366	1,117	-	-	-	(1,195)	4,366	1,117
	<u>(618)</u>	<u>8,105</u>	<u>2,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(618)</u>	<u>8,105</u>	<u>2,619</u>

No provision for Hong Kong Profits Tax has been made as the Everight Group's profit neither arisen in, nor derived from, Hong Kong.

The provision for the PRC Enterprise Income Tax is calculated at a range of 15% to 33% of the estimated assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

Details of deferred tax liabilities are set out in note 35.

The tax (credit) charge for the Relevant Periods can be reconciled to the (loss) profit before tax per the consolidated income statement as follows:

	2003	2004	2005
	HKD'000	HKD'000	HKD'000
(Loss) profit before tax			
- Continuing operations	(2,953)	5,525	(10,016)
- Discontinued operations	(815)	56	4,129
	<u>(3,768)</u>	<u>5,581</u>	<u>(5,887)</u>
Tax at the income tax rate of 33%	(1,243)	1,842	(1,943)
Tax effect of expenses not deductible for tax purpose	1,697	7,018	3,022
Tax effect of income not taxable for tax purpose	(2,655)	(2,288)	(726)
Tax effect of tax losses/deductible temporary differences not recognised	1,346	3,024	1,092
Utilisation of tax losses previously not recognised	-	(740)	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	237	(751)	1,174
Tax (credit) charge for the year	<u>(618)</u>	<u>8,105</u>	<u>2,619</u>

The State Administration of Taxation in the PRC promulgated a circular to all local tax authorities requiring them to levy land appreciation tax on property developers. During the Relevant Periods, certain subsidiaries of Everight are subject to land appreciation tax in the PRC in respect of sales of properties. In the opinion of the directors, based on the opinion from the legal advisors, Everight Group is unlikely to receive demands from the local tax authorities for the payment of land appreciation tax in respect of sales of properties. The Everight Group has not, however, been able to secure written confirmation of the local tax authorities, and the directors consider the chance that land appreciation tax might be levied is less than probable. Accordingly, no provisions for land appreciation tax have been made in the Financial Information. Should such levies take place, the land appreciation tax attributable to Everight Group will amount to approximately HKD3,442,000, HKD5,235,000 and HKD5,952,000 as at 31st December, 2003, 2004 and 2005, respectively.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

13. DISCONTINUED OPERATIONS

In October 2005, the directors resolved to dispose of the Everight Group's entire interest in Green Farm and its subsidiary (the "Green Farm Group") which was engaged in production and sale of pomelos. The disposal was completed on 31st October, 2005, on which date control of the Green Farm Group was passed to the acquirer.

The (loss) profit for each of two years ended 31st December, 2004 and the period ended 31st October, 2005 from the discontinued operations are analysed as follows:

	Year ended 31st December,		Period ended 31st
	2003	2004	October,
	<i>HKD'000</i>	<i>HKD'000</i>	2005 <i>HKD'000</i>
(Loss) profit of discontinued operations for the year/period (<i>note 13(a)</i>)	(815)	56	2,138
Gain on disposal of subsidiaries (<i>note 38</i>)	—	—	1,991
	<u>(815)</u>	<u>56</u>	<u>4,129</u>

(a) Income statement

The results of the discontinued operations for each of two years ended 31st December, 2004 and the period ended 31st October, 2005 are as follows:

	Year ended 31st December,		Period ended 31st
	2003	2004	October,
	<i>HKD'000</i>	<i>HKD'000</i>	2005 <i>HKD'000</i>
Sales of pomelos	894	605	434
Cost of pomelo sold	(894)	(605)	(434)
(Loss) gain arising from changes in fair value less estimated point-of-sale costs of pomelo trees	(324)	334	2,753
Other income	69	33	36
Administrative expenses	(560)	(311)	(651)
	<u>(815)</u>	<u>56</u>	<u>2,138</u>
(Loss) profit before tax	(815)	56	2,138
Income tax expense	—	—	—
	<u>(815)</u>	<u>56</u>	<u>2,138</u>

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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(b) Cash flow statement

The cash flows of the discontinued operations for each of two years ended 31st December, 2004 and the period ended 31st October, 2005 are as follows:

	Year ended 31st December,		Period ended 31st October,
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Net cash used in operating activities	(127)	(410)	(1,189)
Net cash used in investing activities	(758)	(684)	(108)
Net cash from financing activities	1,264	980	1,002
Net increase (decrease) in cash and cash equivalents	379	(114)	(295)

(c) Fair value of pomelos

Fair value and saleable output of pomelos are analysed as follows:

	Year ended 31st December,		Period ended 31st October,
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Fair values less estimated point-of-sale costs	635	933	–
	<i>Kg</i>	<i>Kg</i>	<i>Kg</i>
Saleable output	495,000	722,708	–

14. DIVIDENDS

No dividends were paid or proposed by Everight during the Relevant Periods, nor has any dividend been proposed since 31st December, 2005.

15. EARNINGS PER SHARE

No calculation of earnings per share for the Relevant Periods is presented as the information is considered not meaningful for the purpose of this report.

16. PROPERTY, PLANT AND EQUIPMENT

	Golf resort, hotel properties and buildings HKD'000	Leasehold improvements HKD'000	Plant, equipment and fixtures HKD'000	Motor vehicles HKD'000	Utensils HKD'000	Construction in progress HKD'000	Total HKD'000
Everight Group							
COST							
At 1st January, 2003	169,863	2,493	30,888	6,645	1,067	27,428	238,384
Exchange adjustments	(765)	(7)	(271)	(27)	(5)	-	(1,075)
Additions	10	-	4,278	742	-	15,136	20,166
Transfer from prepaid lease payments	-	-	-	-	-	413	413
Disposals and write-off	(82)	(1,764)	(590)	(1,991)	-	-	(4,427)
At 31st December, 2003	169,026	722	34,305	5,369	1,062	42,977	253,461
Exchange adjustments	402	1	64	7	1	-	475
Additions	-	-	2,821	514	-	39,672	43,007
Transfer from prepaid lease payments	-	-	-	-	-	435	435
Transfer	59,468	-	-	-	-	(59,468)	-
Disposals and write-off	(141)	-	(572)	(432)	-	-	(1,145)
At 31st December, 2004	228,755	723	36,618	5,458	1,063	23,616	296,233
Exchange adjustments	5,433	14	907	201	25	452	7,032
Additions	1,059	72	1,452	446	-	7,162	10,191
Transfer from prepaid lease payments	-	-	-	-	-	189	189
Disposals and write-off	(220)	-	(114)	(821)	-	(1,219)	(2,374)
Disposal of subsidiaries (note 38)	(978)	(569)	(335)	(164)	-	-	(2,046)
At 31st December, 2005	234,049	240	38,528	5,120	1,088	30,200	309,225
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	46,778	1,024	24,425	3,505	1,066	-	76,798
Exchange adjustments	(227)	(3)	(112)	(16)	(5)	-	(363)
Provided for the year	7,478	84	1,349	620	-	-	9,531
Eliminated on disposals and write-off	-	(932)	(274)	(461)	-	-	(1,667)
At 31st December, 2003	54,029	173	25,388	3,648	1,061	-	84,299
Exchange adjustments	76	-	34	5	1	-	116
Provided for the year	8,231	62	1,373	510	-	-	10,176
Eliminated on disposals and write-off	(37)	-	(137)	(389)	-	-	(563)
At 31st December, 2004	62,299	235	26,658	3,774	1,062	-	94,028
Exchange adjustments	1,601	6	607	136	25	-	2,375
Provided for the year	10,045	63	2,004	406	-	-	12,518
Eliminated on disposals and write off	(59)	-	(50)	(715)	-	-	(824)
Disposal of subsidiaries (note 38)	(353)	(171)	(148)	(71)	-	-	(743)
At 31st December, 2005	73,533	133	29,071	3,530	1,087	-	107,354
NET BOOK VALUES							
At 31st December, 2003	<u>114,997</u>	<u>549</u>	<u>8,917</u>	<u>1,721</u>	<u>1</u>	<u>42,977</u>	<u>169,162</u>
At 31st December, 2004	<u>166,456</u>	<u>488</u>	<u>9,960</u>	<u>1,684</u>	<u>1</u>	<u>23,616</u>	<u>202,205</u>
At 31st December, 2005	<u>160,516</u>	<u>107</u>	<u>9,457</u>	<u>1,590</u>	<u>1</u>	<u>30,200</u>	<u>201,871</u>

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

The above items of property, plant and equipment are depreciated, after taking into account their estimated residual value, on a straight-line basis as follows:

Golf resort, hotel properties and buildings	5-20 years
Leasehold improvements	6-20 years
Plant, equipment and fixtures	3-15 years
Motor vehicles	5-12 years
Utensils	3-5 years

All the Everight Group's golf resort, hotel properties, buildings and construction in progress are situated in the PRC and are held under medium term land use rights.

At 31st December, 2005 the Everight Group has pledged hotel properties having a net book value of HKD18,851,000 (2003: HKD21,171,000; 2004: HKD19,806,000) to secure general banking facilities granted to the Everight Group.

At 31st December, 2005, included in construction in progress are staff costs capitalised of HKD162,000 and prepaid lease payments capitalised of HKD189,000.

At 31st December, 2003 and 2004, included in construction in progress are net interest capitalised of HKD205,000 and HKD1,133,000, respectively, staff costs capitalised of HKD1,057,000 and HKD3,719,000, respectively, and prepaid lease payments capitalised of HKD413,000 and HKD435,000, respectively.

17. PREPAID LEASE PAYMENTS

	Everight Group		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Balance at beginning of the year	100,901	102,367	101,225
Exchange adjustments	(459)	135	2,374
Additions	4,179	997	124
Released for the year	<u>(2,254)</u>	<u>(2,274)</u>	<u>(2,301)</u>
Balance at the end of the year	102,367	101,225	101,422
Less: Amount to be released to consolidated income statement within one year	<u>(2,249)</u>	<u>(2,274)</u>	<u>(2,331)</u>
Non-current portion	<u><u>100,118</u></u>	<u><u>98,951</u></u>	<u><u>99,091</u></u>

The carrying amount represented prepayment for medium-term land use rights situated in the PRC.

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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18. POMELO TREES

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Reconciliation of carrying amounts of pomelo trees:			
Carrying amount at 1st January	3,967	4,396	5,276
Exchange adjustments	(19)	7	90
Additions	748	678	172
Write-off	–	–	(490)
(Loss) gain arising from changes in fair value less estimated point-of-sale costs	(300)	195	2,753
Disposal of subsidiaries	–	–	(7,801)
	<u>4,396</u>	<u>5,276</u>	<u>–</u>
Carrying amount at 31st December	<u>4,396</u>	<u>5,276</u>	<u>–</u>
Quantities of pomelo trees	<u>39,103</u>	<u>39,103</u>	<u>–</u>

19. LOAN RECEIVABLES

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Loan receivables	435	233	143
Less: Amount due within one year shown under current assets	(104)	(93)	(18)
	<u>331</u>	<u>140</u>	<u>125</u>
Amount due after one year	<u>331</u>	<u>140</u>	<u>125</u>

The loans are secured, bear interest at prevailing market rate in the PRC and are receivable by half-yearly instalments over 10 years from the drawn down date of the loans. The directors consider that the carrying amounts of loan receivables approximate their fair values at the respective balance sheet dates.

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20. NEGATIVE GOODWILL

	Everight Group <i>HKD'000</i>
GROSS AMOUNT	
At 1st January, 2003, 31st December, 2003 and 31st December, 2004	63,550
Derecognised upon the application of HKFRS 3	<u>(63,550)</u>
At 31st December, 2005	<u>–</u>
RELEASE TO INCOME	
At 1st January, 2003	714
Released in the year	<u>6,355</u>
At 31st December, 2003	7,069
Released in the year	<u>6,355</u>
At 31st December, 2004	13,424
Derecognised upon the application of HKFRS 3	<u>(13,424)</u>
At 31st December, 2005	<u>–</u>
CARRYING AMOUNTS	
At 31st December, 2003	<u>56,481</u>
At 31st December, 2004	<u>50,126</u>
At 31st December, 2005	<u>–</u>

The negative goodwill was released to income on straight line basis over 10 years. As explained in note 2, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

21. INVESTMENTS IN SUBSIDIARIES

	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Unlisted shares, at cost	<u>47,403</u>	<u>47,403</u>	<u>47,403</u>

22. INVENTORIES

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Properties held for sale	10,335	8,692	3,293
Pomelos	38	366	–
Finished goods	1,084	1,058	661
Consumables	<u>896</u>	<u>840</u>	<u>319</u>
	<u>12,353</u>	<u>10,956</u>	<u>4,273</u>

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23. TRADE AND OTHER RECEIVABLES

Everight Group

Everight Group generally allows an average credit period of 60 to 180 days to its trade customers.

The aged analysis of the Everight Group's trade receivables as at each of the balance sheet dates are as follows:

	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Trade receivables:			
0-30 days	4,833	6,880	2,833
31-60 days	315	380	84
61-90 days	297	505	83
91-180 days	326	653	604
181-365 days	2,730	2,004	21
1 to 2 years	759	5,394	6,443
Over 2 years	95	186	5,223
	9,355	16,002	15,291
Other receivables:			
Advances to staff	50	88	19
Deposits and prepayments	2,365	3,065	2,508
Others	1,764	1,049	789
	4,179	4,202	3,316
	13,534	20,204	18,607

The directors consider that the carrying amounts of trade and other receivables approximate their fair values at the respective balance sheet dates.

24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Contracts in progress at the balance sheet date:			
Contract costs incurred	5,472	6,174	–
Recognised profits less recognised losses	1,584	1,784	–
	7,056	7,958	–
Less: Progress billings	(1,710)	(7,958)	–
	5,346	–	–

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

25. AMOUNTS DUE FROM/TO RELATED COMPANIES

Name of related company	Notes	Everight Group		
		As at 31st December,		
		2003	2004	2005
		HKD'000	HKD'000	HKD'000
Amounts due from related companies:				
Belair Farm Limited	(i)	10	10	10
Green Farm	(i)	–	–	2
Lotus Hill Golf Resort Limited	(i)	–	23	–
番禺高爾夫球協會	(v)	–	–	160
		10	33	172

The above amounts are unsecured, interest-free and have no fixed repayment terms.

Maximum amount outstanding during the Relevant Periods are as follows:

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	HKD'000	HKD'000	HKD'000
Belair Farm Limited	10	10	10
Green Farm	–	–	2
Lotus Hill Golf Resort Limited	–	23	–
番禺高爾夫球協會	–	–	160
	10	33	172

Name of related company	Notes	Everight Group			Everight		
		As at 31st December,			As at 31st December,		
		2003	2004	2005	2003	2004	2005
		HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Amounts due to related companies:							
Evervan Holdings Limited							
("Evervan")	(ii)	133	789	884	–	–	–
Green Valley Golf & Turf							
Contractors Ltd.	(vii)	3,915	3,172	472	–	–	–
L.F. Sam (HK) Ltd.	(iii)	577	1,453	1,549	–	–	–
Lotus Hill Golf Resort Limited	(i)	29	–	474	–	–	–
Mr. Chang Rong Wu	(iv)	4,311	4,543	11,976	87	99	110
廣州市廣榮鞋業有限公司	(ii)	4,671	5,019	–	–	–	–
番禺高爾夫球協會	(v)	22	141	–	–	–	–
曲江果園	(vi)	–	–	482	–	–	–
		13,658	15,117	15,837	87	99	110

Notes:

- (i) Mr. Lai Tsan Tung, David and Mr Chan Jink Chou, Eric, directors and ultimate shareholders of Everight, are also the directors and shareholders of the related company.
- (ii) Mr. Chang Rong Wu, a director of subsidiaries of Everight, is also a director and a shareholder of the related company.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

- (iii) Mr. Chan Jink Chou, Eric, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.
- (iv) A director of subsidiaries of Everight.
- (v) Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is the chairman of the association.
- (vi) Belair Farm Limited is the sole shareholder of 曲江果園 in which Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.
- (vii) Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.

The above amounts are unsecured and have no fixed repayment terms. The amount of HKD11,907,000 is bearing interest at rates ranging from 5.25% to 8% per annum (2003: HKD9,058,000 at rates ranging from 5.25% to 12% per annum; 2004: HKD9,933,000 at rates ranging from 5.25% to 8% per annum). The remaining balance of HKD3,930,000 (2003: HKD4,600,000; 2004: HKD5,184,000) is interest-free.

The directors consider that the carrying amounts of the amounts due from/to the related companies approximate their fair values.

26. AMOUNT DUE FROM/TO A DIRECTOR

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Amount due from a director:			
Name of director			
Mr. Chan Jink Chou, Eric	<u>175</u>	<u>189</u>	<u>67</u>

Maximum amount outstanding during the Relevant Periods are as follows:

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Mr. Chan Jink Chou, Eric	<u>175</u>	<u>189</u>	<u>189</u>
Amount due to a director:			
Name of director			
Mr. Lai Tsan Tung, David	<u>3,525</u>	<u>2,233</u>	<u>3,709</u>

The amount due from a director is unsecured, interest-free and has no fixed terms of repayment. The amount due to a director of HKD3,984,000 bears interest at 6.9% to 8% (2003: HKD3,984,000 at 6.9% – 12%; 2004: HKD3,984,000 at 6.9% – 8%) per annum and has no fixed terms of repayment.

The directors consider that the carrying amounts of the amount due from/to a director approximate their fair values at the respective balance sheet dates.

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment. The directors consider that the carrying amounts of the amounts due from/to minority shareholders of subsidiaries approximate their fair values.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

28. AMOUNT DUE FROM/TO A SHAREHOLDER

The amount is unsecured, interest-free and has no fixed terms of repayment. The directors consider that the carrying amount of the amount due from/to a shareholder approximates its fair value.

29. BANK BALANCES AND CASH

Out of bank balances and cash, the following amounts were held in the PRC and were subject to foreign exchange control.

	Everight Group		
	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Bank balances and cash	<u>25,323</u>	<u>5,542</u>	<u>11,770</u>

The carrying amounts of bank balances and cash approximate their fair values at the respective balance sheet dates.

30. TRADE AND OTHER PAYABLES

Everight Group

The aged analysis of the Everight Group's trade payables as at each of the balance sheet dates are as follows:

	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Trade payables:			
0-30 days	3,594	561	598
31-60 days	199	349	340
61-90 days	583	553	351
91-180 days	302	867	720
181-365 days	92	172	45
1 year – 2 years	180	213	133
Over 2 years	<u>525</u>	<u>316</u>	<u>303</u>
	<u>5,475</u>	<u>3,031</u>	<u>2,490</u>
Other payables:			
Accruals	2,529	3,966	3,189
Deposits received	1,325	1,107	1,198
Receipt in advance	1,691	7,924	10,158
Construction cost payable	315	3,779	2,950
Other tax payable	6,239	10,192	17,207
Others	<u>599</u>	<u>939</u>	<u>1,829</u>
	<u>12,698</u>	<u>27,907</u>	<u>36,531</u>
	<u>18,173</u>	<u>30,938</u>	<u>39,021</u>

The directors consider that the carrying amounts of trade and other payables approximate their fair values at the respective balance sheet dates.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

31. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

At 31st December, 2003 and 2004, the amount of the Everight Group was unsecured, interest-free and had no fixed terms of repayment. The directors consider that the carrying amount of amount due to ultimate holding company approximate its fair value. During the year ended 31st December, 2005, the amount due to ultimate holding company was settled by setting off against certain amounts due from related companies.

32. UNSECURED LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The loan of the Everight Group is borrowed from 番禺市旅遊總公司 which is a minority shareholder of a subsidiary. The loan is unsecured, bears interest at prevailing market rate in the PRC and is repayable on demand. The directors consider that the carrying amount of unsecured loan from a minority shareholder of a subsidiary approximates its fair value at respective balance sheet dates.

33. UNSECURED LOANS FROM RELATED COMPANIES

Name of related companies	Notes	Everight Group		
		As at 31st December,		
		2003	2004	2005
		HKD'000	HKD'000	HKD'000
Evervan	(i)	10,000	15,000	15,837
番禺高爾夫球協會	(ii)	1,500	1,502	1,538
		<u>11,500</u>	<u>16,502</u>	<u>17,375</u>
The unsecured loan are repayable as follows:				
Within one year		1,500	11,502	6,538
More than one year, but not exceeding two years		<u>10,000</u>	<u>5,000</u>	<u>10,837</u>
		11,500	16,502	17,375
Less: Amount due within one year shown under current liabilities		<u>(1,500)</u>	<u>(11,502)</u>	<u>(6,538)</u>
Amount due after one year		<u>10,000</u>	<u>5,000</u>	<u>10,837</u>

Notes:

(i) At 31st December, 2003 and 2004, a loan of HKD10,000,000 was unsecured, bearing interest at 8% per annum and was repayable by two instalments of HKD5,000,000 each on 16th April, 2005 and 15th May, 2005, respectively. In addition, at 31st December, 2004, a loan of HKD5,000,000 is unsecured, bearing interest at 6% per annum and is repayable on 27th May, 2006.

At 31st December, 2005, a loan of HKD10,837,000 is unsecured, bearing interest at 6% per annum and is repayable on 15th May, 2007. The remaining loan of HKD5,000,000 is unsecured, bearing interest at 6% per annum and is repayable on 27th May, 2006.

(ii) The loan is unsecured, bearing interest at 6% per annum and has no fixed terms of repayment.

The directors consider that the carrying amounts of unsecured loans from related companies approximate their fair values at respective balance sheet dates.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

34. BANK AND OTHER BORROWINGS

	Everight Group			Everight		
	As at 31st December,			As at 31st December,		
	2003	2004	2005	2003	2004	2005
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Bank loans, secured	67,986	56,338	49,024	-	-	-
Other loans, unsecured	-	1,877	8,702	-	-	7,500
	<u>67,986</u>	<u>58,215</u>	<u>57,726</u>	<u>-</u>	<u>-</u>	<u>7,500</u>

The borrowings are repayable as follows:

Within one year	49,231	43,192	40,423	-	-	7,500
More than one year, but not exceeding two years	3,751	3,755	9,613	-	-	-
More than two years, but not exceeding five years	11,253	9,390	7,690	-	-	-
Over five years	3,751	1,878	-	-	-	-
	<u>67,986</u>	<u>58,215</u>	<u>57,726</u>	<u>-</u>	<u>-</u>	<u>7,500</u>
Less: Amount due within one year shown under current liabilities	(49,231)	(43,192)	(40,423)	-	-	(7,500)
Amount due after one year	<u>18,755</u>	<u>15,023</u>	<u>17,303</u>	<u>-</u>	<u>-</u>	<u>-</u>

At the respective balance sheet dates, the carrying amounts of the borrowings of the Everight Group are denominated in Renminbi except for a loan of HKD7,500,000 at 31st December, 2005 which is denominated in Hong Kong dollars.

The exposure of the Everight Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	As at 31st December,		
	2003	2004	2005
	HKD'000	HKD'000	HKD'000
Fixed-rate borrowings:			
Within one year	49,231	43,192	32,923
In more than one year but not more than two years	3,751	3,755	9,613
In more than two years but not more than three years	3,751	3,130	2,563
In more than three years but not more than four years	3,751	3,130	2,563
In more than four years but not more than five years	3,751	3,130	2,564
Over five years	3,751	1,878	-
	<u>67,986</u>	<u>58,215</u>	<u>50,226</u>

In addition, at 31st December, 2005, the Everight Group and Everight have variable-rate borrowing of HKD7,500,000 which carries interest at Hong Kong prime rate plus 2%.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Everight Group's borrowings are as follows:

	As at 31st December,		
	2003	2004	2005
Effective interest rate:			
Fixed-rate borrowings	5.58% to 6.34%	5.58% to 7.33%	6.34% to 60.00%
Variable-rate borrowings	–	–	9.75%

The directors consider that the carrying amounts of bank loans approximate their fair values at the respective balance sheet dates.

35. DEFERRED TAX LIABILITIES (ASSETS)

The following are the major deferred tax liabilities (assets) recognised by the Everight Group and movements thereon during the Relevant Periods:

	Accelerated tax depreciation <i>HKD'000</i>	Tax losses <i>HKD'000</i>	Total <i>HKD'000</i>
At 1st January, 2003	2,671	(815)	1,856
(Credit) charge to income statement for the year (<i>note 12</i>)	<u>(1,874)</u>	<u>679</u>	<u>(1,195)</u>
At 31st December, 2003	797	(136)	661
Charge (credit) to income statement for the year (<i>note 12</i>)	<u>5,139</u>	<u>(773)</u>	<u>4,366</u>
At 31st December, 2004	5,936	(909)	5,027
Charge (credit) to income statement for the year (<i>note 12</i>)	<u>1,293</u>	<u>(176)</u>	<u>1,117</u>
At 31st December, 2005	<u><u>7,229</u></u>	<u><u>(1,085)</u></u>	<u><u>6,144</u></u>

The Everight Group had estimated unused tax losses of HKD34,201,000, HKD33,007,000 and HKD30,351,000 at 31st December, 2003, 2004 and 2005, respectively, available for offset against future profits. A deferred tax asset has been recognised in respect of HKD907,000, HKD6,060,000 and HKD7,233,000 of such losses for the years ended 31st December, 2003, 2004 and 2005, respectively. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. Tax losses of HKD4,748,000, HKD7,019,000 and HKD9,073,000, respectively, at 31st December, 2003, 2004 and 2005 may be carried forward indefinitely. The remaining tax losses will be expired within 5 years from the respective balance sheet dates.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred taxation balance for financial reporting purposes:

	As at 31st December,		
	2003 <i>HKD'000</i>	2004 <i>HKD'000</i>	2005 <i>HKD'000</i>
Deferred tax assets	136	909	1,520
Deferred tax liabilities	<u>(797)</u>	<u>(5,936)</u>	<u>(7,664)</u>
	<u><u>(661)</u></u>	<u><u>(5,027)</u></u>	<u><u>(6,144)</u></u>

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

36. SHARE CAPITAL

**As at 31st December,
2003, 2004 and 2005**
HKD'000

<i>Authorised:</i>	
50,000,000 ordinary shares of HKD1 each	50,000
	<u>50,000</u>
<i>Issued and fully paid:</i>	
47,412,692 ordinary shares of HKD1 each	47,413
	<u>47,413</u>

37. RESERVES

**Accumulated
losses**
HKD'000

THE COMPANY	
At 1st January, 2003	(118)
Loss for the year	(8)
	<u>(126)</u>
At 31st December, 2003	(126)
Loss for the year	(23)
	<u>(149)</u>
At 31st December, 2004	(149)
Loss for the year	(75)
	<u>(224)</u>
At 31st December, 2005	<u>(224)</u>

38. DISPOSAL OF SUBSIDIARIES

As explained in note 13, in October 2005, the Everight Group discontinued its production and sale of pomelo operations as a result of the disposal of its entire interest in the Green Farm Group for a consideration of HKD1. The net assets of the Green Farm Group at the date of disposal were as follows:

HKD'000

Net assets disposed of:	
Property, plant and equipment	1,303
Pomelo trees	7,801
Inventories	1,347
Other receivables	2
Bank balances and cash	22
Trade and other payables	(314)
Amount due to ultimate holding company	(12,140)
Amount due to a related company	(12)
	<u>(1,991)</u>
Gain on disposal of subsidiaries	1,991
	<u>–</u>
Net cash outflow arising on disposal:	
Cash consideration received	–
Bank balances and cash disposed of	(22)
	<u>(22)</u>

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

The impact of the Green Farm Group on the Everight's results and cash flows in the current and prior periods is disclosed in note 13.

39. OPERATING LEASE COMMITMENTS

The Everight Group as lessee:

Minimum lease payments paid under operating leases during the Relevant Periods:

	Year ended 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Premises	<u>275</u>	<u>122</u>	<u>223</u>

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

	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Within one year	225	346	89
In the second to fifth year inclusive	437	581	–
Over five years	<u>12,497</u>	<u>12,390</u>	<u>–</u>
	<u>13,159</u>	<u>13,317</u>	<u>89</u>

Operating lease payments represent rentals payable by the Everight Group for certain of its premises. Leases are negotiated and rentals are fixed for an average term ranging from 2 to 50 years.

40. CAPITAL COMMITMENT

At 31st December, 2005, the Everight Group had capital expenditure of HKD5,194,000 (2003: HKD8,718,000; 2004: HKD3,984,000) in respect of the construction of properties contracted for but not provided in the financial information.

41. PLEDGE OF ASSETS

At the respective balance sheet dates, the Everight Group had the following assets pledged to banks to secure the general banking facilities granted to the Everight Group:

	As at 31st December,		
	2003	2004	2005
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Prepaid lease payments	45,209	44,225	66,529
Hotel properties	<u>21,171</u>	<u>19,806</u>	<u>18,851</u>
	<u>66,380</u>	<u>64,031</u>	<u>85,380</u>

42. RETIREMENT BENEFIT SCHEMES

In accordance with the relevant PRC rules and regulations, the Everight Group is required to establish a defined contribution plan managed by the relevant local government authority in the PRC and to make contributions for their eligible employees.

APPENDIX II ACCOUNTANTS' REPORT OF EVERIGHT GROUP

With effect from 1st December, 2000, the Everight Group has also joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Everight Group in funds under the control of an independent trustee.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Everight Group with respect to the MPF Scheme is to make the required contributions under the scheme. The contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Everight Group at rates specified in the rules of the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

43. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the Relevant Periods, the Everight Group had the following significant transactions with related parties:

Related parties	Notes	Nature of transactions	Year ended 31st December,		
			2003 HKD'000	2004 HKD'000	2005 HKD'000
Director:					
Mr. Lai Tsan Tung, David		Interest expense	21	247	308
Related companies:					
Mr. Chang Rong Wu	(i)	Interest expense	694	619	1,277
蓮花山房地產開發公司	(ii)	Commission fee	47	19	42
番禺高爾夫球協會	(iii)	Interest expense	75	135	91
番禺市旅遊總公司	(ii)	Interest expense	870	-	374
		Management fee paid	479	282	285
		Waive of interest expense	-	678	566
Evervan	(iv)	Interest expense	536	857	931
Magnum Company Limited	(v)	Management fee paid	480	240	435
Lotus Hill Golf Resort Limited	(vi)	Management fee paid	120	119	79
L.F. Sam (HK) Ltd.	(v)	Interest expense	-	-	190
			<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) A director of subsidiaries of Everight.
- (ii) Minority shareholders of subsidiaries of Everight.
- (iii) Mr. Lai Tsan Tung, David, a director and an ultimate shareholder of Everight, is the chairman of the association.
- (iv) Mr. Chang Rong Wu, a director of subsidiaries of Everight, is also a director and a shareholder of the related company.
- (v) Mr. Chan Jink Chou, Eric, a director and an ultimate shareholder of Everight, is also a director and a shareholder of the related company.
- (vi) Mr. Lai Tsan Tung, David and Mr. Chan Jink Chou, Eric, directors and ultimate shareholders of Everight, are also directors and shareholders of the related company.

In addition to the above, Everight disposed of its entire interest in the Green Farm Group to Belair Farm Limited for a consideration of HKD1.

APPENDIX II	ACCOUNTANTS' REPORT OF EVERIGHT GROUP
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Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	Year ended 31st December,		
	2003	2004	2005
	HKD'000	HKD'000	HKD'000
Short-term benefits	1,253	679	1,230
Post-employment benefits	-	-	-
Other long-term benefits	-	-	-
	<u>1,253</u>	<u>679</u>	<u>1,230</u>

The remuneration of directors and key executives is determined by the board of directors of Everight having regard to the performance of individuals and market trends.

- (b) Details of balances with related parties as at the respective balance sheet dates are set out on the consolidated balance sheets and in notes 25, 26, 27, 28, 31, 32 and 33.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Everight or any of the companies comprising the Everight Group in respect of any period subsequent to 31st December, 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

A. Introduction

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed Acquisition. The Consideration will be settled as to HK\$80 million by cash and as to HK\$60 million by issue of the Notes.

The unaudited pro forma combined balance sheet of the Enlarged Group is prepared based upon the unaudited consolidated balance sheet of the Group as at 30th September, 2005, which has been extracted from the interim report of the Company for the six months ended 30th September, 2005 and the audited consolidated balance sheet of the Everight Group as at 31st December, 2005 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition has been completed on 30th September, 2005.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31st March, 2005 as extracted from the annual report of the Company for the year ended 31st March, 2005, and the audited consolidated income statement and cash flow statement of the Everight Group for the year ended 31st December, 2005 as extracted from the accountants' report set out in Appendix II to this circular as if the Acquisition has been completed on 1st April, 2004.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards which are applicable to accounting periods beginning on or after 1st January, 2005 (hereinafter collectively referred to the "new HKFRSs").

For the purpose of preparing the unaudited pro forma combined income statement and cash flow statement of the Enlarged Group for the year ended 31st March, 2005, the financial information of the Group have been restated where appropriate using the new HKFRSs. The restatement adjustments are summarised in note 3 below.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purposes only, it does not purport to represent what the results or financial position of the Enlarged Group are on the completion of the Acquisition.

B. Unaudited pro forma combined balance sheet of the Enlarged Group

	The Group as at 30th September, 2005 HK\$'000	Everight Group as at 31st December, 2005 HK\$'000	Combined HK\$'000	Pro forma adjustment (Note 1) HK\$'000	Pro forma adjustment (Note 2) HK\$'000	The Enlarged Group HK\$'000
NON-CURRENT ASSETS						
Properties, plant and equipment	62,666	201,871	264,537			264,537
Prepaid lease payments	1,350	99,091	100,441			100,441
Intangible assets	3,043	-	3,043			3,043
Goodwill	10,885	-	10,885	53,772		64,657
Loan receivables		125	125			125
Deferred tax assets	-	1,520	1,520			1,520
	<u>77,944</u>	<u>302,607</u>	<u>380,551</u>	<u>53,772</u>	<u>-</u>	<u>434,323</u>
CURRENT ASSETS						
Inventories	73,377	4,273	77,650			77,650
Loan receivables	49,814	18	49,832			49,832
Debtors, deposits and prepayments	429,610	18,607	448,217			448,217
Prepaid lease payments	30	2,331	2,361			2,361
Properties held for sale	58,547	-	58,547			58,547
Investments held for trading	53,052	-	53,052			53,052
Financial assets at fair value through profit or loss	26,840	-	26,840			26,840
Amount due from related parties	-	172	172			172
Amount due from a director of Everight	-	67	67			67
Amount due from minority shareholders of subsidiaries	-	2	2	15,614		15,616
Amount due from a shareholder of Everight	-	33	33			33
Tax recoverable	-	257	257			257
Pledged bank deposits	3,000	-	3,000			3,000
Bank balances and cash	669,511	12,112	681,623	(80,000)	(7,500)	594,123
	<u>1,363,781</u>	<u>37,872</u>	<u>1,401,653</u>	<u>(64,386)</u>	<u>(7,500)</u>	<u>1,329,767</u>

APPENDIX III

FINANCIAL INFORMATION OF THE
ENLARGED GROUP

	The Group as at 30th September, 2005 HK\$'000	Everight Group as at 31st December, 2005 HK\$'000	Combined HK\$'000	Pro forma adjustment (Note 1) HK\$'000	Pro forma adjustment (Note 2) HK\$'000	The Enlarged Group HK\$'000
CURRENT LIABILITIES						
Creditors and accrued charges	77,145	39,021	116,166		(26)	116,140
Amounts due to related companies		15,837	15,837			15,837
Amount due to director of Everight		3,709	3,709			3,709
Amount due to minority shareholders of subsidiaries		4,429	4,429			4,429
Amount due to a shareholder of Everight		18	18			18
Obligation under a finance lease due within one year	33	-	33			33
Unsecured loan from a minority shareholder of a subsidiary	-	3,364	3,364			3,364
Unsecured loans from related companies	-	6,538	6,538			6,538
Bank and other borrowings due within one year	49,053	40,423	89,476		(7,500)	81,976
Convertible note payables	353	-	353			353
Tax liabilities	62	12,189	12,251			12,251
	<u>126,646</u>	<u>125,528</u>	<u>252,174</u>	<u>-</u>	<u>(7,526)</u>	<u>244,648</u>
NET CURRENT ASSETS (LIABILITIES)						
	<u>1,237,135</u>	<u>(87,656)</u>	<u>1,149,479</u>	<u>(64,386)</u>	<u>26</u>	<u>1,085,119</u>
NON-CURRENT LIABILITIES						
Obligations under a finance lease due after one year	91	-	91			91
Unsecured loans from related companies	-	10,837	10,837			10,837
Bank and other borrowings due after one year	1,875	17,303	19,178			19,178
Convertible note payables	901,333	-	901,333	49,247		950,580
Deferred tax liabilities		7,664	7,664			7,664
	<u>903,299</u>	<u>35,804</u>	<u>939,103</u>	<u>49,247</u>	<u>-</u>	<u>988,350</u>
	<u>411,780</u>	<u>179,147</u>	<u>590,927</u>	<u>(59,861)</u>	<u>26</u>	<u>531,092</u>
CAPITAL AND RESERVES						
Share capital	4,086	47,413	51,499	(47,413)		4,086
Reserves	406,770	23,201	429,971	(12,448)	26	417,549
Equity attributable to equity holders of the parent	410,856	70,614	481,470	(59,861)	26	421,635
Minority interests	924	108,533	109,457	-		109,457
	<u>411,780</u>	<u>179,147</u>	<u>590,927</u>	<u>(59,861)</u>	<u>26</u>	<u>531,092</u>

C. Unaudited pro forma combined income statement of the Enlarged Group

	The Group for the year ended 31st March, 2005 (Originally stated) HK\$'000	Adjustments on adoption of new HKFRSs (Note 3) HK\$'000	The Group for the year ended 31st March, 2005 (Restated) HK\$'000	Everight Group for the year ended 31st December, 2005 HK\$'000	Combined HK\$'000	Pro forma adjustment (Note 2) HK\$'000	Pro forma adjustment (Note 4) HK\$'000	The Enlarged Group HK\$'000
Continuing operations								
Turnover	379,396		379,396	61,337	440,733			440,733
Cost of sales/services	(259,478)		(259,478)	(16,481)	(275,959)			(275,959)
Gross profit	119,918	-	119,918	44,856	164,774			164,774
Other income	2,139		2,139	2,929	5,068			5,068
Gain on disposal of investments in securities	30		30	-	30			30
Doubtful debts provided	(1,729)		(1,729)	-	(1,729)			(1,729)
Distribution costs	(57,942)		(57,942)	-	(57,942)			(57,942)
Administrative expenses	(34,215)	2,500	(31,715)	(50,001)	(81,716)			(81,716)
Other operating expenses	(567)		(567)	-	(567)			(567)
Amortisation of goodwill	(1,051)		(1,051)	-	(1,051)			(1,051)
Unrealised holding loss on other investments	(4,226)		(4,226)	-	(4,226)			(4,226)
Loss on disposal of investment properties	(3,217)		(3,217)	-	(3,217)			(3,217)
Finance costs	(7,379)	(176)	(7,555)	(7,800)	(15,355)	26	(2,955)	(18,284)
Profit (loss) before taxation	11,761	2,324	14,085	(10,016)	4,069	26	(2,955)	1,140
Taxation	(1,823)		(1,823)	(2,619)	(4,442)			(4,442)
Profit (loss) for the year from continuing operations	9,938	2,324	12,262	(12,635)	(373)	26	(2,955)	(3,302)
Discontinued operations								
Profit for the year from discontinued operations	-	-	-	4,129	4,129	-	-	4,129
Profit (loss) for the year	9,938	2,324	12,262	(8,506)	3,756	26	(2,955)	827
Attributable to:								
Equity holders of the parent	9,938	2,324	12,262	(2,949)	9,313	26	(2,955)	6,384
Minority interests	-	-	-	(5,557)	(5,557)	-	-	(5,557)
	9,938	2,324	12,262	(8,506)	3,756	26	(2,955)	827

D. Unaudited pro forma combined cash flow statement of the Enlarged Group

	The Group for the year ended 31st March, 2005 <i>(Note 3)</i> HK\$'000	Everight Group for the year ended 31st December, 2005 HK\$'000	Combined HK\$'000	Pro forma adjustment <i>(Note 1)</i> HK\$'000	Pro forma adjustment <i>(Note 2)</i> HK\$'000	The Enlarged Group HK\$'000
OPERATING ACTIVITIES						
Cash generated from operations	98,125	27,616	125,741			125,741
Overseas taxation paid	(768)	(3,390)	(4,158)			(4,158)
Interest paid	(4,261)	(6,963)	(11,224)			(11,224)
Net cash from operating activities	93,096	17,263	110,359	-	-	110,359
INVESTING ACTIVITIES						
Interest received	296	67	363			363
Proceeds from disposal of investment properties	4,983	-	4,983			4,983
Proceeds from disposal of investment in securities	1,903	-	1,903			1,903
Proceeds from disposal of property, plant and equipment	476	1,472	1,948			1,948
(Repayment) raise of loan receivables	(31,500)	90	(31,410)			(31,410)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(22,861)	-	(22,861)	(74,228)		(97,089)
Purchase of property, plant and equipment	(3,081)	(10,191)	(13,272)			(13,272)
Increase in pledged bank deposits	(3,000)	-	(3,000)			(3,000)
Development cost incurred	(1,467)	-	(1,467)			(1,467)
Additions to prepaid lease payments	-	(124)	(124)			(124)
Additions of pomelo trees	-	(172)	(172)			(172)
Decrease in cash and cash equivalents from disposal of subsidiaries	-	(22)	(22)			(22)
Net cash used in investing activities	(54,251)	(8,880)	(63,131)	(74,228)	-	(137,359)

APPENDIX III
**FINANCIAL INFORMATION OF THE
ENLARGED GROUP**

	The Group for the year ended 31st March, 2005 <i>(Note 3)</i> HK\$'000	Everight Group for the year ended 31st December, 2005 HK\$'000	Combined HK\$'000	Pro forma adjustment <i>(Note 1)</i> HK\$'000	Pro forma adjustment <i>(Note 2)</i> HK\$'000	The Enlarged Group HK\$'000
FINANCING ACTIVITIES						
Proceeds from issue of convertible notes	100,000	-	100,000			100,000
New bank and other borrowings raised	96,225	14,308	110,533		(7,500)	103,033
Proceeds from issue of shares	80,489	-	80,489			80,489
Advance from related companies	-	732	732			732
Repayment of bank and other borrowings	(205,596)	(15,962)	(221,558)			(221,558)
Advance from a director of Everight	-	1,476	1,476			1,476
Expenses paid in connection with issue of shares	(2,623)	-	(2,623)			(2,623)
Repayment of obligation under a finance lease	(16)	-	(16)			(16)
Repayment to minority shareholders of subsidiaries	-	(520)	(520)			(520)
Repayment to a minority shareholder of a subsidiary	-	(1,331)	(1,331)			(1,331)
Repayment to Green Label	-	(315)	(315)			(315)
Net cash generated by financing activities	<u>68,479</u>	<u>(1,612)</u>	<u>66,867</u>	<u>-</u>	<u>(7,500)</u>	<u>59,367</u>
Net increase (decrease) in cash and cash equivalents	107,324	6,771	114,095	(74,228)	(7,500)	32,367
Cash and cash equivalents at beginning of the year	80,136	5,772	85,908	(5,772)		80,136
Effect of foreign exchange rate changes	<u>520</u>	<u>(431)</u>	<u>89</u>	<u>-</u>		<u>89</u>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<u><u>187,980</u></u>	<u><u>12,112</u></u>	<u><u>200,092</u></u>	<u><u>(80,000)</u></u>	<u><u>(7,500)</u></u>	<u><u>112,592</u></u>

E. Notes:

- (1) These represent the elimination of the capital and reserves of Everight upon the Acquisition for a total consideration of HK\$140 million which is to be financed by internal cash resources of approximately HK\$80 million and issue of the Notes of approximately HK\$60 million, respectively. With reference to the net asset value of Everight attributable to shareholders of Everight as at 31st December, 2005 of HK\$70,614,000, representing share capital of HK\$47,413,000 and reserves of HK\$23,201,000, and the vendors' indemnity for the tax provision of HK\$15,614,000 attributable to the Group in case assessment is received from the relevant tax authority, goodwill of HK\$53,772,000 arises on the Acquisition. After the Acquisition, the vendors will become minority shareholders of subsidiaries.

As at 1st January, 2005, Everight Group had cash and cash equivalents of HK\$5,772,000, which was assumed to be acquired by the Group upon Acquisition and therefore for presentation purpose, such amount is deducted from the cash consideration.

In accordance with HKAS 32, the liability component and the equity component of the Notes should be separately accounted for. The liability component is included in non-current liabilities while the equity component is included in shareholder's equity. Both liability and equity components are stated at fair values. If there are any transaction costs involved, they would usually be allocated to the liability and equity components of the Notes based on the proportion of their respective fair value. For the purpose of compiling this unaudited pro forma combined balance sheet of the Enlarged Group, the fair value of the liability component of the Notes as at 30th September, 2005 is HK\$49,247,000 estimated by the Company using the effective interest method and the fair value of the equity component of the Notes as at 30th September, 2005 is HK\$10,753,000 (included in the adjustment to reserves). The final fair value of the liability component of the Notes at the Completion Date may be different to the amount of HK\$49,247,000 million as at 30th September, 2005.

- (2) These represent the elimination of the loan advanced by the Group to Everight as at 31st December, 2005 of HK\$7.5 million (of which HK\$3 million and HK\$4.5 million were drawn down on 5th December, 2005 and 28th December, 2005 respectively) upon consolidation of the Everight Group to the Group and the relevant interest of HK\$26,000 accrued from the dates of drawdown to 31st December, 2005.
- (3) These represent (i) a decrease in administrative expenses of approximately HK\$2.5 million, representing the issue expenses incurred for the 2005 February Note setoff against the equity component and liability component of the 2005 February Note on a pro-rata basis; and accordingly, (ii) an increase in interest expenses of approximately HK\$176,000 on the liability component of the 2005 February Note for the year ended 31st March, 2005 as if the new HKFRSs were adopted. The adoption of the new HKFRSs did not result in any pro forma adjustments on the cash flow statement of the Group.
- (4) This represents the estimated interest expenses accrued on the liability component of the Notes issued as part of the consideration for the Acquisition as set out in note 1 above, assuming an effective interest rate of 6.0% per annum, which represents estimated fair market interest rate of bank loan or non-convertible bond currently for the Group.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.



ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHEUNG TAI HONG HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Cheung Tai Hong Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the conditional acquisition of all the shares of Everight Investment Limited (the "Acquisition") might have affected the financial information presented, for inclusion in Appendix III to the Company's circular dated 26th April, 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages from 130 to 136 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, 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 of the Group as at 30th September, 2005 or any future date; or
- the results and cash flows of the Group for the year ended 31st March, 2005 or any future period.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company 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 disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Hong Kong, 26th April, 2006

2. MANAGEMENT DISCUSSION AND ANALYSIS

(a) THE GROUP

The following is the reproduction of the management discussion and analysis as contained in the interim report of the Company for the six months ended 30th September, 2005 and the annual reports of the Company for the year ended 31st March, 2003, 2004 and 2005:

For the six months ended 30th September, 2005

BUSINESS REVIEW

The Group's turnover for the six months ended 30th September, 2005 was approximately HK\$426.4 million, representing an increase of 143% as compared with the comparative period of HK\$175.4 million. This substantial increase is mainly due to the expansion in the activity of securities investment, being part of the Group's strategy in short term treasury management, which contributed HK\$282.4 million to the Group's turnover during the period under review.

During the period, an impairment loss for goodwill of HK\$11.0 million has been charged to the income statement. In addition, due to the adoption of new accounting standard, there was an increase in interest expense of HK\$7.4 million on the liability component of convertible notes. As a result, the Group incurred a loss for the period of HK\$17.8 million as compared with that of the comparative period of HK\$1.0 million. The loss per share for the current period was 4.4 cents.

Property Investment

During the period, the Group has been actively looking for investment opportunities in properties. As stated in the announcement made by the Company on 26th October, 2005, the Group has proceeded to a more advanced stage in relation to negotiation for a possible acquisition of property interest in Macau. In addition, the Group has been in discussions in respect of possible acquisitions of property interests and sporting facilities in the People's Republic of China (the "PRC") and Hong Kong. Further announcements will be made by the Company as and when appropriate.

There are 24 residential units and 1 commercial unit at Talon Tower on Connaught Road West remain unsold.

Securities Investment

During the period, the Group has expanded its activity in securities investment with an aim to maximise the short term yield from the surplus

cash balances. There was a realised gain of HK\$4.1 million recognised for the period. Due to the short term market fluctuation, there was an unrealised loss of HK\$5.3 million which was calculated with reference to the market price at the period end and a net loss of HK\$1.2 million was reported for this segment. At the period end, the Group held investments in securities in aggregate of HK\$79.9 million, which mainly represents shares or equity-linked notes in renowned companies listed in Hong Kong, the United States and Japan.

Medicine Retailing and Manufacturing

Since Tung Fong Hung Investment Limited and Jean-Marie Pharmacal Company Limited (collectively the “**Medicine Business**”) were acquired by the Group around end of April 2004, their results for five months ended 30th September, 2004 had been accounted for by the Group in the comparative period. After taking into account of this factor, the performance of the Medicine Business for the current period shows a moderate growth as compared with the comparative period. The segment turnover and profit achieved for the period were HK\$138.4 million (2004: HK\$107.1 million) and HK\$5.9 million (2004: HK\$0.6 million) respectively.

FINANCIAL REVIEW

During the period, an aggregate amount of HK\$20 million of the 3-year convertible notes was converted into approximately 47.6 million shares in the Company and the outstanding amount of the 3-year convertible notes at the period end was HK\$70 million. To strengthen its resources for expanding the activity in property investment, the Group has further issued 5-year convertible notes in August 2005 to raise HK\$1,000 million, which can be converted into shares of the Company at an initial conversion price of HK\$0.44 per share and repayable at the fifth anniversary from the issue date (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled, and be redeemed at 110 percent of their principal amount. In accordance with the new accounting standard adopted by the Group during the period, an amount of HK\$160.9 million representing the estimated equity component of the 5-year convertible notes was recorded to increase the capital reserve of the Group. As a result, after offset by the loss of HK\$17.8 million incurred for the period, the net asset value of the Group was increased by 66% from HK\$248.8 million at 31st March, 2005 to HK\$411.8 million at the period end.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. In addition to the above convertible note payables in aggregate of HK\$1,070 million outstanding at the period end, a variety of credit facilities is maintained so as to meet its working capital requirements of the Group. At the end of the period, total bank borrowings amounted to HK\$50.9 million, of which HK\$49.0 million is repayable within one year and the remaining HK\$1.9 million is repayable after one year.

The net gearing ratio of the Group, calculated with reference to the total of bank loans of HK\$50.9 million and the fair value of the liability component of convertible note payables of HK\$901.7 million, setoff with the bank and cash balances of HK\$672.5 million, and the Group's shareholders' funds of HK\$410.9 million, was 0.7 at 30th September, 2005.

All the bank borrowings were interest-bearing with reference to Hong Kong inter-bank offer rate, London inter-bank offer rate or prime rate. The management believes that interest remains stable in the capital market and therefore no hedge is to be made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, and hence the Board considers that the Group was not subject to any material exchange rate exposure.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 30th September, 2005, the number of employees was 527 (31st March, 2004: 515). Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the period, the Group had also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

OUTLOOK

Continued prosperity in the Hong Kong property is expected for the coming year though there may be some short term adjustments due to the rising interest rate and the unpredictable outbreak of avian flu. The strong economy of the surrounding areas, in particular Macau becomes a hot spot for vacation, will definitely accelerate their demand for high quality residential and commercial buildings. The Group is actively and cautiously exploring suitable investment opportunities, with its primarily focus on the property markets in Hong Kong, the PRC and Macau, for its future growth.

PLEDGE OF ASSETS

As at 30th September, 2005, the Group's property held for sale in an aggregate value of approximately HK\$58.5 million, bank balance of HK\$3.0 million, and certain property, plant and equipment of a subsidiary of the Company of approximately HK\$11.6 million had been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the period end, the Group had contingent liabilities in respect of a tax indemnity given upon disposal of a subsidiary at HK\$60 million.

SECURITIES IN ISSUE

During the period, the Company had issued 47,619,046 ordinary shares upon conversion of convertible notes at the conversion price of HK\$0.42 per share. In addition, share options of 27,300 shares were cancelled and there were no share options granted and outstanding at the period end.

As at 30th September, 2005, there were 408,614,553 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

For the year ended 31st March, 2005

BUSINESS REVIEW

The Group's turnover for the year ended 31st March, 2005 was approximately HK\$379.4 million, representing a significant increase of approximately 500% as compared to the last corresponding year of HK\$63.5 million. In addition, the Group has achieved a turn-around and resulted in a profit of HK\$9.9 million for current year as compared with a loss of HK\$29.6 million in 2004. The substantial increase in turnover was mainly due to the newly acquired medicine business in May 2004 and improved bottom line was due to the increase in sale of properties benefiting from the strong recovery in the property market in Hong Kong.

Property Development

During the year, there were further sales of 16 residential units and 2 commercial units at Talon Tower on Connaught Road West, which recorded a turnover of HK\$91.7 million with a gross profit of HK\$29.2 million. As at 31st March, 2005, there remain unsold units of 24 residential units and 1 commercial unit.

Medicine Retailing and Manufacturing

Subsequent to the acquisition of the interest in the Chinese medicine retailer, "Tung Fong Hung", and the western pharmaceutical manufacturer, Jean-Marie Pharmacal Company Limited ("Jean-Marie"), the Group has diversified into the medicine business and owned a reputable medicine brand name and a chain of retail stores spanning across Hong Kong, the Mainland China, Macau, Canada, Taiwan and Singapore. The division currently operates a total number of approximately 70 retail outlets in these regions and generated a total turnover of HK\$276.0 million for the period under review. By taking advantage of the progressively economic recovery in Hong Kong and the continued robust economic growth in the Mainland China in particular, the business achieved a rebound in sales from last year.

The western pharmaceutical manufacturer, Jean-Marie, is putting efforts in expanding its distribution network and enhancing its production efficiency. Sales to the local government are a new stream of business since Jean-Marie was licensed with the GMP (Good Manufacturing Practice) standard. The Group is also devoting resources to obtain licenses of its products in Hong Kong and potential markets aiming for a sale breakthrough. As Jean-Marie is still in transition of rationalizing its business, it recorded an operating loss for the period under review.

FINANCIAL REVIEW, LIQUIDITY AND CAPITAL RESOURCES

As at 31st March, 2005, the net asset value of the Group was HK\$243.6 million, which showed an increase of 87% as the capital base has been enlarged by the issue of approximately 175 million and 57.1 million ordinary shares upon placement and conversion of convertible notes respectively making an aggregate proceed of HK\$105.2 million.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities is maintained so as to meet its working capital requirements. As at the year end, promissory note payables, bank and other borrowings in aggregate amounted to HK\$80.8 million of which some HK\$13.0 million of the outstanding amount was used to finance the acquisition of the medicine business during the year and the remaining HK\$67.8 million was for working capital. Some HK\$75.2 million of the outstanding borrowing is repayable within 1 year while the remaining HK\$5.6 million is repayable after one year. In addition, during the year, the Company has issued convertible notes in the amount of HK\$100 million, which are convertible into shares in the Company at an initial conversion price of HK\$0.42 per share, interest is charged at 2% per annum and repayable at the third anniversary from the issue date. Before the year end, convertible notes in an aggregate principal amount of HK\$10 million were converted into ordinary shares at the conversion price of HK\$0.42 per share. The balance in an aggregate principal amount of HK\$90 million will be redeemed on 23rd February, 2008 (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled.

At 31st March, 2005, the Group maintained bank and cash balances of approximately HK\$191.0 million and is in a net cash position. After the enlargement of the capital base, the gearing ratio of the Group, calculated with reference to the total of promissory note payables, bank and other borrowings of HK\$80.8 million and the Group's shareholders' funds of HK\$243.6 million, substantially reduced to 0.3 as compared with 0.7 as at 31st March, 2004.

Most of the bank and other borrowings were interest bearing with reference to Hong Kong inter-bank offer rate or prime rate. The management believes that interest remains to be low in the capital market and therefore no hedge was made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, the Board thus considered that the Group was not subject to any material exchange rate exposure.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As a result of the acquisition of the medicine business, the number of employees increased to 515 persons as at 31st March, 2005 (2004: 11 persons). Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions. During the year, the Group also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

OUTLOOK

Continued prosperity in the Hong Kong property market is expected for the coming year. Leveraging on the Group's extensive experience in the property business, the Group will further explore investment opportunities in high quality residential and commercial buildings with a view to expand and enhance its property investment portfolio. During the year, through the placement of shares and issue of convertible notes, the Group has raised approximately HK\$180 million. The Group has further proceeded to raise another HK\$1,000 million through the issue of 5-year convertible notes, which completion is expected to be around end of July 2005. Having abundant resources, the Group is actively and cautiously exploring suitable investment opportunities, with its primary focus on the property markets in Hong Kong, the Mainland China and Macau, for its future growth.

PLEDGE OF ASSETS

As at 31st March, 2005, the Group's property held for sale with an aggregate value of approximately HK\$58.5 million, bank balance of HK\$3.0 million and property, plant and equipment of certain subsidiaries of the Company of approximately HK\$12.0 million have been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the year end, the Group has contingent liabilities in respect of a tax indemnity given on disposal of a subsidiary in prior year of HK\$60 million.

MATERIAL ACQUISITIONS

During the year, the Group acquired the entire issued share capital of Tung Fong Hung Investment Limited (“**Tung Fong Hung**”) and the remaining 50% of the issued share capital of Pacific Wins Development Ltd., not being held by Tung Fong Hung for considerations of HK\$42 million and HK\$28 million respectively. As a result of the acquisition, the Group commences to engage in the manufacturing and retailing of medicine and health food.

SECURITIES IN ISSUE

During the year, there were the following movements in the issued share capital of the Company:

- (a) placement of 25,000,000 and 150,000,000 shares at HK\$0.81 and HK\$0.40 each respectively;
- (b) issue of 33,333,331 and 23,809,520 shares upon conversion of convertible notes at conversion prices of HK\$0.45 and HK\$0.42 per share respectively; and
- (c) issue of 1,155,000 shares at HK\$0.207 each upon exercise of share options.

As at the year end, there were 360,995,507 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

For the year ended 31st March, 2004

BUSINESS REVIEW

The Group's turnover for the year ended 31st March, 2004 was approximately HK\$63,514,000, representing a significant increase of 54% from that of last year. The improvement in turnover was mainly attributable to the increase in sales proceeds from the Group's property development project at Sheung Wan, namely Talon Tower. During the year, the Group recorded a net loss of approximately HK\$29,612,000. This represents a reduced loss of 43% from last year. The significant improvement in the Group's result was mainly due to the appreciation in value of the properties of the Group due to the recent recovery of the property market. The sales of motorcycles also made a satisfactory contribution to the Group.

Property Development

Talon Tower is a 26-storey commercial and residential building. With the recent recovery of the property market and the active sale and marketing effort, satisfactory sales was recorded in the first quarter of 2004. Nearly half of the units were sold now.

Sales of approximately HK\$47,276,000 were achieved during the year. The proceeds from the sales had been wholly used to repay its bank loan. Since the completion of construction, no finance cost had been capitalized. Excluding the allowance made for devaluation, property sales yielded an approximate gross profit of HK\$5,973,000.

To take advantage of the improved sentiment in the property market since late 2003, the Group acquired the remaining 40% interest in Talon Tower in December, 2003. The acquisition enables better efficiency in the sale team, there had been marked improvement in sale performance thereafter. The proceeds from sales helped to reduce the bank borrowing and thus improve the gearing position of the Group.

Trading of Motorcycles

The Group continues to be the distributor of Suzuki motorcycles in Hong Kong and Macau. The turnover for the year was approximately HK\$15,864,000 which showed an increase of 37% as compared with that of last year, as a result of the popularity of scooter in the region. The business made a contribution to the Group of approximately HK\$664,000 during the year.

FINANCIAL REVIEW

As at 31st March, 2004, the net asset value of the Group was HK\$130,176,000, which showed a decrease of 17% over that of last year. The drop was attributable to the net loss reported for the year. The Group maintained a bank balances and cash of approximately HK\$80,136,000, while bank and other borrowings had decreased from HK\$178,453,000 to HK\$94,444,000. These bank and other borrowings comprised mainly the project loans relating to Talon Tower, which amounted to HK\$86,771,000 at the year end date and were bearing interest with reference to Hong Kong interbank offer rate. In view of the low interest environment, the Group made no hedge against interest rate fluctuation. The gearing ratio of the Group (the ratio of total liabilities over total assets) was 43% (2003: 55%).

Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, the Board considered the Group was not subject to any material exchange rate exposure.

On 15th April, 2003, the Group underwent a capital reorganisation (“**Capital Reorganisation**”) involving capital reduction, share sub-division, share consolidation and share premium cancellation that led to the nominal value of the shares of the Company being reduced to HK\$0.01 each.

REWARDS FOR EMPLOYEES

As at 31st March, 2004, the Group employed 10 persons in Hong Kong and 1 person in the PRC. The total personnel expenses amounted to approximately HK\$3,956,000 (2003: HK\$6,347,000). Employees are remunerated according to qualifications and experience, job nature and performance, as well as market conditions. The Group also provides other benefits such as medical and dental insurance cover and provident fund scheme to the employees. During the year, the Group issued 10,510,000 new shares to employees and consultants at HK\$0.207 per share pursuant to the 2002 Option Scheme, raising HK\$2,176,000. The proceeds were used as working capital. There was no share option granted to any director during the year.

PROSPECTS

Since late 2003, property buyers have been restoring confidence in the property market following the economic recovery in Hong Kong led by the Government’s active policies in the individual travel permit by PRC tourists and the CEPA. The Board is confident that the property development will bring better return to the Group. In addition, with the proceeds from sales of units in Talon Tower, the bank loans are further reduced. This creates strength to the Group for other investment opportunities.

In May, 2004, the Group acquired 100% interest in Tung Fong Hung Group ("TFH"). TFH is principally engaged in the manufacture and sale of "Tung Fong Hung" branded Chinese pharmaceutical and health products in Hong Kong, Mainland China, Taiwan, Canada, Macau and Singapore. It is also engaged in the production and distribution of western pharmaceutical products in Hong Kong. The Board perceives the investment will bring in favourable benefits to the Group as Tung Fong Hung will continue to grow with profitable returns in pace with the increase in health awareness of the public and the surge in the number of incoming PRC visitors.

For the year ended 31st March, 2003

BUSINESS REVIEW

The Group's turnover for the year was approximately HK\$41,276,000, representing a decrease of 8% over the same period of last year. Turnover was mainly derived from the sale of properties and trading of motorcycles and spare parts. During the year, the Group recorded a loss of approximately HK\$51,556,000, an improvement of 13% compared with last year's result. The loss for the year is mainly due to deficit arising on revaluation of investment properties of HK\$1,500,000 and the impairment loss arising on the properties under development of approximately HK\$25,421,000 and unrealised holding loss on other investments of approximately HK\$19,583,000.

Property Development

The Group owns 60% interest in a property development project in Sheung Wan, namely Talon Tower. The superstructure construction for the project was completed and the sales activity has begun since November 2002. As at 31st March, 2003, approximately HK\$21,825,000 of sales was achieved. The proceeds from the sale have been used to repay its bank loan so that the Group's gearing position can be improved. However, in view of the sluggish property market in Hong Kong, the Group had provided an impairment loss of approximately HK\$25,421,000 in respect of the Talon Tower during the year.

Trading of Motorcycles

The Group continues to be the distributor of Suzuki motorcycles in Hong Kong and Macau. The turnover for the year was approximately HK\$11,562,000 which has increased by 16% as compared with last year. The business incurred a loss of approximately HK\$225,000 during the year.

Electrical and Mechanical Engineering and Distribution

Due to the unsatisfactory performance in electrical and mechanical engineering and distribution, the Group disposed of the business to an independent third party in August 2002 at a loss of approximately HK\$713,000.

FINANCIAL REVIEW

The net asset value of the Group as at 31st March, 2003 was HK\$157,612,000, which was a decrease of 8% over last year end date. It was mainly attributed by the impairment loss arising on the properties under development of approximately HK\$25,421,000, deficit on revaluation of investment properties of HK\$1,500,000 and unrealised holding loss on other investments of approximately HK\$19,583,000 respectively. The Group maintained a high cash balance of approximately HK\$120,112,000. On the other hand, the secured bank and other borrowings of the Group, which were denominated in Hong Kong dollars and were bearing interest with reference to prime rate, had increased slightly from HK\$174,996,000 to approximately HK\$178,453,000 as at 31st March, 2003. Secured loans for Talon Tower of approximately HK\$168,688,000 was matured in December 2002, and the lending bank had conditionally agreed to extend the repayment date. In view of the relative low interest rate, the Group made no hedge for those floating prime rate based borrowings. The gearing ratio (the ratio of total liabilities over total assets) was 55% (2002: 53%).

Most of the assets and liabilities of the Group are denominated in Hong Kong dollars, the Board considered the Group is not subject to any material exchange rate exposure.

On 28th May, 2002, the Group entered into a conditional placing agreement with a placing agent, whereby the placing agent agreed to place, on a fully underwritten basis, 390,000,000 new shares at the placing price of HK\$0.10 per placing share. The net proceeds from the placing was approximately HK\$38,000,000, out of which HK\$20,000,000 would be used to finance the development of the Group's property in Hong Kong and the balance of approximately HK\$18,000,000 would be used as general working capital. The placing was completed on 12th June, 2002.

On 6th March, 2003, the Group proposed a capital reorganisation (the "**Capital Reorganisation**") involving capital reduction, share sub-division, share consolidation and share premium cancellation. Details were set out in the circular sent to the shareholders on 21st March, 2003. The Capital Reorganisation was approved in a shareholders' meeting and became effective on 15th April, 2003.

REWARDS FOR EMPLOYEES

As at 31st March, 2003, the Group employed 11 persons in Hong Kong. The total personnel expenses amounted to approximately HK\$6,347,000 (2002: HK\$15,697,000). Employees are remunerated according to qualifications and experience, job nature and performance, as well as market conditions. The Group also provides other benefits such as medical and dental insurance cover and retirement benefits schemes to the employees. There was no share option granted to any director and employee during the year.

PROSPECTS

The Group continues to suffer loss from property development business as a result of persistent downturn in the overall business environment and high unemployment rate, coupled with the outbreak of atypical pneumonia since February 2003. In view of the adverse situation, the directors will take a prudent approach in directing the business. Stringent cost saving measures are implemented during the year and thereby reducing the expenditure of the Group to a lower level. Continuous efforts have been made to seek business opportunities that will yield positive returns.

(b) EVERIGHT GROUP

For the year ended 31st December, 2005

BUSINESS REVIEW

Turnover of Everight Group for the year ended 31st December, 2005 was HK\$61.3 million, showing an increase of HK\$14.5 million (31.1%) from that of HK\$46.8 million for the year ended 31st December, 2004. The increase was mainly due to the improvement in revenue from golf course operation as a result of the first full year operation of the golf course in Yalong Bay, Sanya, Hainan ("**Sanya Golf Club**") since its partial opening in October 2004. As additional loans were drawn down during the year to finance the payment of development costs of the Sanya Golf Club, finance cost increased by HK\$3.2 million from 2004. In addition, on adoption of new accounting standards, remaining balance of negative goodwill as at 1st January, 2005 had been transferred to accumulated profit account directly. Other income was reduced by HK\$6.4 million since there would not be any release of such negative goodwill for the year as compared with prior year. In this respect, loss for the year ended 31st December, 2005 was HK\$8.5 million, as compared to a loss of HK\$2.5 million as reported for the year ended 31st December, 2004.

Golf resort and hotel operations

The number of members in the golf club in Lotus Hill, Panyu, Guangzhou (“**Lotus Hill Golf Club**”) remained stable at around 1,000 and the revenue from the Lotus Hill Golf Club increased by 16% as compared with that of 2004. In spite of the significant increase in turnover of Sanya Golf Club, it incurred a loss for the year as compared with a profit in 2004 since 2005 was the first full year operation which covered both the high and low seasons while contribution from 2004 was only for the high season in the last quarter after its partial opening. As a result, as compared with 2004, the segment turnover increased considerably by HK\$15.3 million (41.7%) from HK\$36.6 million to HK\$51.9 million and the segment result decreased by 26% from HK\$4.3 million to HK\$3.2 million.

Property development and sales

During the year ended 31st December, 2005, long leases have been entered into for the remaining 3 (2004: NIL) villas and 7 (2004: 2) apartments had been sold. In addition, 10 (2004: 25) existing lessees of the villas had paid the additional price to Everight Group to obtain full title of the villas by which the lessees become the owners of the villas. Revenue from this segment was HK\$9.5 million which was similar to that of 2004. Though there were some enhancements in the local property market during the year, the selling price remained stable. A loss of HK\$5.4 million was recorded for this segment for the year since less payments were received from existing lessees for obtaining full title of the villas.

As at 31st December, 2005, there were 6 apartments remaining unsold and 12 villas with long leases but titles remaining with Everight Group.

BORROWING AND GEARING

During the year, Everight Group had drawn down and repaid bank borrowings of HK\$14.3 million (2004: HK\$31.0 million) and HK\$16.0 million (2004: HK\$40.8 million) respectively. As at 31st December, 2005, total borrowings amounted to HK\$78.5 million (2004: HK\$79.4 million) of which HK\$50.3 million (2004: HK\$59.4 million) was repayable within one year while the remaining HK\$28.2 million (2004: HK\$20.0 million) was repayable after one year.

Other than a loan of HK\$7.5 million which interest was charged at 2% over the prime rate for lending in Hong Kong dollars, all the borrowings of Everight Group had fixed interest rates. Except for the above loan of HK\$7.5 million and another loan of HK\$15.8 million due to a related party which was denominated in Hong Kong dollars, the remaining loans were denominated in Renminbi.

As at 31st December, 2005, due to the adoption of new accounting standard in Hong Kong and the resulting transfer of negative goodwill of HK\$50.1 million to reserve, the net asset value of Everight Group increased from HK\$132.0 million to HK\$179.1 million. The gearing ratio of Everight Group as at 31st December, 2005, calculated with reference to its total liabilities of HK\$161.3 million (2004: HK\$165.1 million) and total assets of HK\$340.5 million (2004: HK\$297.2 million), reduced from 0.56 as at 31st December, 2004 to 0.47.

For the year ended 31st December, 2004

BUSINESS REVIEW

Turnover of Everight Group for the year ended 31st December, 2004 was HK\$46.8 million, demonstrating an increase of HK\$3.0 million (6.8%) from that of HK\$43.8 million for the year ended 31st December, 2003. The increase was mainly due to the improvement in revenue from golf resort operation as a result of the partial opening of the golf course in the Sanya Golf Club in October 2004. Loss for the year ended 31st December, 2004 was HK\$2.5 million, slightly improved from a loss of HK\$3.2 million for the year ended 31st December, 2003.

Golf resort and hotel operations

The number of members of the Lotus Hill Golf Club remained stable at around 1,000 and the revenue from the Lotus Hill Golf Club was at a level similar to that of 2003. The partial opening of the Sanya Golf Club in October 2004 contributed to the growth in revenue during the year. As a result, as compared with last year, turnover and result of this segment for the year increased by 15.1% from HK\$31.8 million to HK\$36.6 million and by 319.3% from HK\$1.0 million to HK\$4.3 million respectively.

Property development and sales

95 villas and 76 apartments had been built within the Lotus Hill Golf Club. During the year ended 31st December, 2004, further 2 (2003: 12) apartments have been sold while no long lease has been entered into for the villas as compared with one long lease entered into for 1 villa in 2003. In addition, 25 (2003: 26) existing lessees of the villas had paid the additional price to Everight Group to obtain the full title of the villas by which they become the owners of the relevant villas. Revenue from this segment was HK\$9.4 million, showing some decreases from that of 2003 of HK\$10.9 million. As the local property market remained stagnant during the year, the selling price stayed at a low level. A loss of HK\$0.6 million was recorded for this segment for the year, showing some improvements from a loss of HK\$4.4 million for the year ended 31st December, 2003.

As at 31st December, 2004, there were 3 (2003: 3) villas available for long leasing and 13 (2003: 15) apartments remaining unsold. In addition, another 19 (2003: 44) villas have long leases but with the titles remaining with Everight Group.

BORROWING AND GEARING

During the year, Everight Group had drawn down and repaid bank borrowings of HK\$31.0 million (2003: HK\$78.5 million) and HK\$40.8 million (2003: HK\$41.8 million) respectively. In addition, another HK\$5 million (2003: HK\$10.0 million) had been lent by a related party during the year. As at 31st December, 2004, total borrowings amounted to HK\$79.4 million (2003: HK\$79.5 million) of which HK\$59.4 million (2003: HK\$50.7 million) was repayable within one year while the remaining HK\$20.0 million (2003: HK\$28.8 million) was repayable after one year.

All the borrowings of Everight Group had fixed interest rates and, except for the loan of HK\$15.0 million due to a related party which was denominated in Hong Kong dollars, were denominated in Renminbi.

As at 31st December, 2004 and 2003, the net asset value of Everight Group was HK\$132.0 million and HK\$134.0 million respectively. The gearing ratio of Everight Group as at 31st December, 2004, calculated with reference to its total liabilities of HK\$165.1 million (2003: HK\$143.5 million) and total assets of HK\$297.2 million (2003: HK\$277.5 million), increased to 0.56 from 0.52 as at 31st December, 2003.

For the year ended 31st December, 2003

BUSINESS REVIEW

Turnover of Everight Group for the year ended 31st December, 2003 was HK\$43.8 million, of which about 72.5% was contributed from golf resort and hotel operations while the remaining 27.5% mainly came from property sale. Loss for the year ended 31st December, 2003 was approximately HK\$3.2 million.

Golf resort and hotel operations

The number of members in the Lotus Hill Golf Club remained stable at around 1,000. Due to the outbreak of Severe Acute Respiratory Syndrome in the first half of the year, there were some adverse impacts to the operations. Turnover and result of this segment for the year was HK\$31.8 million and HK\$1.0 million respectively.

The construction work for the Sanya Golf Club was ongoing and partial opening was expected in late 2004.

Property development and sales

95 villas and 76 apartments had been built within the Lotus Hill Golf Club. During the year ended 31st December, 2003, 12 apartments have been sold with another long lease has been entered into for 1 villas. In addition, 26 existing lessees of the villas had paid the additional price to the Everight Group to obtain the full title of the villas by which they become the owners of the relevant villas. Revenue from this segment was HK\$10.9 million. As the local property market remained stagnant during the year, the selling price stayed at a low level. A loss of HK\$4.4 million was recorded for this segment for the year.

As at 31st December, 2003, there were 3 villas available for long leasing and 15 apartments remaining unsold. In addition, another 44 villas have long term lease but with titles remaining with Everight Group.

BORROWING AND GEARING

During the year, Everight Group had drawn down and repaid bank borrowings of HK\$78.5 million and HK\$41.8 million respectively. In addition, another HK\$10.0 million had been lent by a related party during the year. As at 31st December, 2003, total borrowings amounted to HK\$79.5 million of which HK\$50.7 million was repayable within one year while the remaining HK\$28.8 million was repayable after one year.

All the borrowings of Everight Group had fixed interest rates and, except for the loan of HK\$10.0 million due to a related party which was denominated in Hong Kong dollars, were denominated in Renminbi.

As at 31st December, 2003, the net asset value of Everight Group was HK\$134.0 million. The gearing ratio of Everight Group as at 31st December, 2003 was 0.52, calculated with reference to its total liabilities of HK\$143.5 million and total assets of HK\$277.5 million.

3. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP**(a) The Group**

As mentioned in the 2004-2005 annual report and the 2005-2006 interim report, the Group has been actively exploring business opportunities with primary focus on property development and investment. In addition to the Acquisition, the Group has further entered into an agreement to acquire 40% interest in Orient Town Limited, a company which has an indirect 58.1% equity interest in a company owning 14 parcels of leased land situated in Estrada de Seac Pai Van, Macau, preliminarily planned for development of residential units and service apartments principally for sale. The Group is open for other potential investments which fit the Group's expansion strategy.

After Completion, the property development in the PRC is expected to accelerate the future growth of the Enlarged Group. On the other hand, the Group will also extend its principal activities to golf resort and hotel business, which will widen and diversify the recurring source of revenue of the Enlarged Group.

(b) Everight Group

Yalong Bay in Sanya is one of the preferred destinations for leisure traveling in the PRC, in particular for the northerners during the winter season. After the scheduled expansion of the golf course from existing 18 holes to 27 holes and completion of the club house and ancillary facilities, full operation of the Sanya Golf Club is expected in late 2006 which will be in time to capture business growth in the peak season.

Yalong Bay has already been developed into a high-end leisure spot with numerous international well-known hotels being established. The development of hotel and resort facilities within the Sanya Golf Club is in the conceptual design stage. It is currently planned that around 70 to 80 quality, single-storey and low-density villas will be built to provide private and perfect vacation hide-away for golfers and guests. The management of Everight anticipates that the package sale of room accommodation and enjoyment of golfing will be well received by the vacationers which will contribute considerable recurring revenue for the future growth of Everight Group.

Additional lighting facility has lately been completed in the Lotus Hill Golf Club so as to expand its capacity for night-golfing to generate additional revenue. The lease term of the Lotus Hill Golf Club will expire by mid-2007. In light of the established track record and relationship, the management of Everight is confident on the renewal of the lease upon its expiry.

Guangzhou is an affluent city with rapid growth in its economy and there are increasing demands for quality residential units. Application for the development of villas of the Panyu Phase II Development is in progress. It is planned that 70 to 80

luxurious villas will be built by phases for sale which will accelerate the future growth of the Everight Group.

4. STATEMENT OF INDEBTEDNESS

(a) Borrowings

As at the close of business on 28th February, 2006, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement, the Enlarged Group had the following borrowings:

	<i>Notes</i>	The Group <i>HK\$'000</i>	Everight Group <i>HK\$'000</i>	Enlarged Group <i>HK\$'000</i>
Secured bank loans	(i)	54,869	48,077	102,946
Obligations under finance leases	(i)	229	–	229
Unsecured other loans				
– minority shareholders of subsidiaries		–	6,366	6,366
– related parties	(ii)	–	29,860	29,860
– a director		–	4,003	4,003
– an independent third party		–	1,923	1,923
		–	42,152	42,152
		<u>55,098</u>	<u>90,229</u>	<u>145,327</u>

Notes:

- (i) The bank loans and obligations under finance leases are secured by certain of the Enlarged Group's property, plant and equipment, interest in land use rights, properties for sale and bank deposits with an aggregate carrying value of approximately HK\$157.8 million as at 28th February, 2006.
- (ii) The unsecured loan due to a related party of HK\$15.8 million was guaranteed by certain beneficial shareholders of Everight.

As at 28th February, 2006, an independent third party has given guarantee to a bank in respect of credit facilities granted to the Group of which HK\$7.5 million was utilised.

(b) Debt securities

As at the close of business on 28th February, 2006, the Group had outstanding convertible notes of principal amount of HK\$1,044,157,000, of which HK\$46,657,000

and HK\$997,500,000 are convertible into approximately 112.7 million and 2,267.0 million Shares at the then conversion price of HK\$0.414 and HK\$0.44 per Share respectively. The carrying amount of the convertible notes on the balance sheet at 28th February, 2006 was HK\$897,565,000.

(c) Contingent liabilities

At 28th February, 2006, the Enlarged Group had contingent liabilities in respect of a tax indemnity given on disposal of a subsidiary in previous year of HK\$60 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables and bills payable, as at the close of business of 28th February, 2006, none of the companies of the Enlarged Group had any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

Except for the conversion of the convertible notes of principal amount and carrying amount on the balance sheet of HK\$369.7 million and HK\$322.5 million respectively, the directors have confirmed that there has been no material change in the indebtedness of the Enlarged Group since 28th February, 2006.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 28th February, 2006.

5. WORKING CAPITAL

The Directors are of the opinion that after taking into account the internal resources available, banking facilities and loan from other parties, the Enlarged Group will have sufficient working capital for its normal business for the next 12 months from the date of this circular.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2005 (being the date to which the latest published audited financial statements of the Company were made up).

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

The following is the text of a letter, a summary of valuation and valuation certificates prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31st January, 2006 of the properties of the Group.

永利竹 評值顧問有限公司 | RHL Appraisal Ltd

Surveying Practices – Corporate Valuation and Property Consultancy
License No.: C-015672

HONG KONG 香港
Room 1010, Star House
Tsimshatsui, Hong Kong

香港尖沙咀星光行1010室

T +852 2730 6212
F +852 2736 9284
E info@rhl-int.com
W www.rhl-int.com

26th April, 2006

The Directors

Cheung Tai Hong Holdings Limited

29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

Re: Valuation of Various Properties in Hong Kong and the People's Republic of China (the "PRC")

1. INSTRUCTIONS

In accordance with the instructions from **Cheung Tai Hong Holdings Limited** (referred to as the "**Company**") for us to value certain properties held by the Company or its subsidiaries (the Company and the subsidiaries are altogether referred to as the "**Group**") in Hong Kong and the PRC (the "**Properties**"), we confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the Properties as at 31st January, 2006 (referred to as the "**valuation date**").

2. 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 date of valuation 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.

3. VALUATION METHODOLOGY

The properties which are owner-occupied or left vacant have been valued by the comparison method assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market.

For the property which is leased to third parties, we have also adopted the investment method on the basis of capitalisation of the net incomes during the unexpired terms of existing tenancies with due allowance for reversionary income potential.

4. ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the Properties in the 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.

Unless stated as otherwise, the Properties which are held by the owners on long term Government Leases and Land Use Rights Contracts, we have assumed that the owners have free and uninterrupted right to use the Properties for the whole of the unexpired term of their respective Government Leases or Land Use Rights Contracts. Vacant possession is assumed for properties owned and occupied by the owner.

Unless stated as otherwise, we have also assumed that the owners of the Properties have the rights to sell, mortgage, charge or otherwise dispose of them to any third party at a consideration without payment of any additional premium or substantial fee to government authorities.

Other special assumptions in relation to each property, if any, have been stated out in the footnotes of the valuation certificates for each corresponding property.

5. TITLE INVESTIGATION

We have been, in some instances, provided with extracts of title documents relating to the Properties. In addition, we have caused searches to be made at the Land Registry for the property in Hong Kong. However, we have not searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents have been used for reference only.

In respect of the properties located in the PRC, we have relied on the legal opinions given by the PRC legal advisers, 廣東東方金源律師事務所 (Jin & Partners Law Firm), to the Company, on the relevant laws and regulations in the PRC and on the nature of the owners' interests in the properties as at the valuation date.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

6. LIMITING CONDITIONS

We have inspected the exterior of all properties valued 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, site and floor areas and in the identification of the Properties.

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 outgoing of an onerous nature which could affect their values.

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's confirmation that no material facts have been omitted from the information supplied.

7. REMARKS

We have valued the Properties in Hong Kong Dollars (\$). The conversion of Renminbi (RMB) into Hong Kong Dollars is based on the factor of \$1.00 to RMB1.04 with reference to the prevailing exchange rate on the valuation date.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition) and complied with all the requirements contained in the Listing Rules and Practice Note 12 issued by The Stock Exchange of Hong Kong Limited.

We enclosed 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.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

SUMMARY OF VALUATION

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

Property	Capital value in existing state as at 31st January, 2006
<p>1. All Office Units on 1/F, Residential Units 5A, 6B, 7A, 7B, 8B, 9B, 9C, 10B, 10C, 11B, 11C, 12B, 12C, 13B, 13C, 15B, 21A, 22B, 22C, 23C, 25B, 25C, 26B, 27B Talon Tower No. 38 Connaught Road West Sheung Wan Hong Kong</p>	<p>HK\$94,000,000</p>
Sub-total:	HK\$94,000,000

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

<p>2. Units 2301 and 2302 on 23rd Floor Block Xixia, Han Yuan Hedong Residential Area Mingyue 1st Road Dongshan District Guangzhou City Guangdong Province the PRC</p>	<p>HK\$3,000,000</p>
<p>3. Unit 403 on 4th Floor Ruikun Court, Ruian Garden Cuijing Road Xi District Zhongshan City Guangdong Province the PRC</p>	<p>HK\$240,000</p>
<p>4. Dong Fang Hong Factory Complex in High Technology Industrial Development Zone Shalang Town, Zhongshan City Guangdong Province the PRC</p>	<p>HK\$2,070,000</p>

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Property	Capital value in existing state as at 31st January, 2006
5. Building and Land at No.2 Lian Road Composite Industrial Zone Haerbin Economic and Technology Development Area Haerbin City Heilongjiang Province the PRC	HK\$5,660,000
	<hr/>
Sub-Total:	HK\$10,970,000
Grand -Total:	<u>HK\$104,970,000</u>

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

VALUATION CERTIFICATE

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

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st January, 2006
<p>1. All office units on 1/F, Residential Units 5A, 6B, 7A, 7B, 8B, 9B, 9C, 10B, 10C, 11B, 11C, 12B, 12C, 13B, 13C, 15B, 21A, 22B, 22C, 23C, 25B, 25C, 26B, 27B Talon Tower No. 38 Connaught Road West Sheung Wan Hong Kong</p> <p>497, 516, 520, 617/67361th share of lot and in Marine Lot No. 522, the Remaining Portion of Inland Lot No. 3267, the Remaining Portion of Inland Lot No. 7129, the Remaining Portion of Section B of Marine Lot No. 237, and the Remaining Portion of Inland Lot No. 3268 (the "Lot")</p>	<p>Talon Tower is a 25-storey residential/commercial building completed in 2002. The ground floor units are designated for retail/office uses, the 1/F and 2/F are designated for commercial uses, 3/F is used as the recreation room, 5/F to 28/F units are for residential uses (4/F, 14/F and 24/F are omitted).</p> <p>The property comprises all office units on the 1/F and a total of 24 residential units within the subject building. The total gross floor area of the property is approximately 1,936.36 square meters (20,843 square feet) including office area of 371.61 square metres (4,000 square feet).</p> <p>The property is held under Government Leases for a term of 999 years, commencing on 1st December, 1900. The total current government rent payable for the Lot is HK\$32.8 per annum.</p>	<p>The office units on 1/F with a gross floor area of 371.61 square meters (4,000 square feet) is subject to a tenancy commencing on 15th February, 2005 at a monthly rent of HK\$52,000.</p> <p>Residential Unit 9C with a gross floor area of 66.61 square meters (717 square feet) is subject to a tenancy commencing on 1st August, 2005 at a monthly rent of HK\$10,000.</p> <p>Residential Unit 10C, 11C and 12C with a gross floor area of 66.61 square meters each (717 square feet) are subject to individual tenancies all commencing on 1st June, 2005 at a monthly rent of HK\$10,000 each.</p> <p>All the above tenancies shall be terminated upon disposal of the concerned properties by the landlord.</p> <p>The remaining units are currently vacant.</p>	<p>HK\$94,000,000</p>

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Notes:

1. The registered owner of the property is Master Super Development Limited, a wholly-owned subsidiary of the Company.
2. Occupation Permit No. HK39/2002 of the subject building was issued and registered vide Memorial No. UB8825786 dated 20th September, 2002.
3. Office Unit 5A is subject to a Second Legal Charge and a Legal Charge in aggregate of HK\$15 million both in favor of Wing Hang Bank Limited vide Memorial Nos. 05021801070048 and 05021801070036 dated 4th February, 2005 and 4th February, 2005 respectively.
4. Office Units 9B, 9C, 10B, 10C, 11C, 12B, 12C, 13B, 15B, 21A, 22B, 22C, 23C, 25B, 25C, 26B and 27B are subject to a Mortgage and a Second Mortgage in aggregate of HK\$39.5 million both in favour of Dah Sing Bank Limited vide Memorial Nos. UB9279603 and UB9471440 dated 28th June, 2004 and 24th January, 2005 respectively.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

VALUATION CERTIFICATE

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

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st January, 2006
2. Units 2301 and 2302 on 23rd Floor Block Xixia Han Yuan Hedong Residential Area Mingyue 1st Road Dongshan District Guangzhou City Guangdong Province the PRC	The property comprises two residential units on 23rd Floor of a 36-storey residential building completed in 2004. The total gross floor area of the property is approximately 274.69 square metres The property is held for a term of 70 years commencing on 18th October, 2001	As at the valuation date, the property was occupied by the owner as staff quarters.	HK\$3,000,000

Notes:

1. As stipulated in two sets of Building and Land Ownership Certificate dated 21st October, 2005, the property is held by Guangzhou Tung Fong Hung Health Foods Company Limited (廣州市東方紅保健品有限公司), which is a wholly-owned subsidiary of the Company.
2. As revealed by two receipts both issued by 廣州市漢源房地產發展有限公司 on 8th September, 2005, a total sum of RMB2,512,395 of the purchase price has been paid by Guangzhou Tung Fong Hung Health Foods Company Limited (廣州市東方紅保健品有限公司) in acquiring the property.
3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:
 - 3.1 The property is held by Guangzhou Tung Fong Hung Health Foods Company Limited (廣州市東方紅保健品有限公司), which is a wholly-owned subsidiary of the Company;
 - 3.2 The property can be freely transferred, mortgaged or leased;
 - 3.3 The property is protected by law; and
 - 3.4 Up to the date of the PRC legal opinion, the property is free from any encumbrances.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st January, 2006
3. Unit 403 on 4th Floor Ruikun Court Ruian Garden Cuijing Road Xi District Zhongshan City Guangdong Province the PRC	<p>The property comprises a residential unit on 4th Floor of a 7-storey residential building completed in 2001.</p> <p>The gross floor area of the property is approximately 124.43 square metres.</p> <p>The property is held for a term expiring on 20th October, 2062.</p>	As at the valuation date, the property was occupied by the owner as staff quarter.	HK\$240,000

Notes:

1. As specified in the Land Use Rights Certificate dated 19th July, 2005, the land use rights in the property are held by Exalt Investment Limited (顯揚投資有限公司), a wholly-owned subsidiary of the Company, for a term expiring on 20th October, 2062.
2. As stipulated in the Building and Land Ownership Certificate dated 19th July, 2005, the property is held by Exalt Investment Limited (顯揚投資有限公司) for residential purpose.
3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:
 - 3.1 The property is held by Exalt Investment Limited (顯揚投資有限公司);
 - 3.2 The property can be freely transferred, mortgaged or leased;
 - 3.3 The property is protected by law; and
 - 3.4 Up to the date of the PRC legal opinion, the property is free from any encumbrances.

APPENDIX IV	VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP
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VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st January, 2006
<p>4. Dong Fang Hong Factory Complex in High Technology Industrial Development Zone Shalang Town Zhongshan City Guangdong Province the PRC</p>	<p>The property comprises a parcel of land with an area of 2,750.30 square metres on which a 2-storey factory building was completed in 1992.</p> <p>The gross floor area of the factory building is 2,958.50 square metres.</p> <p>The subject land is held for a term expiring on 11th November, 2043 for industrial use.</p>	<p>As at the valuation date, the property was occupied by the owner as a production plant.</p>	<p>HK\$2,070,000</p>

Notes:

1. As specified in a Land Use Rights Certificate dated 26th March, 1999, the subject land is held by Champion Palace Development Limited (冠堡發展有限公司), a wholly-owned subsidiary of the Company, for industrial use for a term expiring on 11th November, 2043.
2. As stipulated in the Building and Land Ownership Certificate dated 16th July, 1999, the property is held by Champion Palace Development Limited (冠堡發展有限公司).
3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:
 - 3.1 The property is held by Champion Palace Development Limited (冠堡發展有限公司);
 - 3.2 The property can be freely transferred, mortgaged or leased;
 - 3.3 The property is protected by law; and
 - 3.4 Up to the date of the PRC legal opinion, the property is free from any encumbrances.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 31st January, 2006																		
5. Buildings and Land at No.2 Lian Road Composite Industrial Zone Haerbin Economic and Technology Development Area Haerbin City Heilongjiang Province the PRC	<p>The property comprises a parcel of land with an area of 12,651.80 square metres on which a 3-storey office building, two single storey godown buildings and a 2-storey godown building are erected. They were completed in between 2001 to 2005.</p> <p>The total gross floor area of the buildings is 4,062.91 square metres which is broken down as follows:</p> <table border="0" style="margin-left: 20px; width: 80%;"> <thead> <tr> <th style="text-align: left;">Use</th> <th style="text-align: center;">Storey</th> <th style="text-align: right;">G.F.A. (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td style="text-align: center;">3</td> <td style="text-align: right;">1,269.87</td> </tr> <tr> <td>Godown</td> <td style="text-align: center;">1</td> <td style="text-align: right;">980.56</td> </tr> <tr> <td>Godown</td> <td style="text-align: center;">2</td> <td style="text-align: right;">1,010.48</td> </tr> <tr> <td>Godown</td> <td style="text-align: center;">1</td> <td style="text-align: right;">802.00</td> </tr> <tr> <td colspan="2" style="padding-top: 10px;">Total:</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">4,062.91</td> </tr> </tbody> </table> <p>The subject land is held for a term expiring on 18th April, 2052 for agricultural facility uses.</p>	Use	Storey	G.F.A. (sq.m.)	Office	3	1,269.87	Godown	1	980.56	Godown	2	1,010.48	Godown	1	802.00	Total:		4,062.91	As at the valuation date, the property was occupied by the owner as farm product storage and ancillary offices.	HK\$5,660,000
Use	Storey	G.F.A. (sq.m.)																			
Office	3	1,269.87																			
Godown	1	980.56																			
Godown	2	1,010.48																			
Godown	1	802.00																			
Total:		4,062.91																			

Notes:

1. As specified in a Land Use Rights Certificate dated 1st April, 2002, the subject land property is held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司), a wholly-owned subsidiary of the Company, for agricultural facility use for a term expiring on 18th April, 2052.
2. As stipulated in 3 sets of Building Ownership Certificate, the aforesaid buildings (except a single storey godown building with a gross floor area of 850 square metres) is held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司).
3. The legal opinion from the PRC legal adviser to the Company on the property is summarised as follows:
 - 3.1 The land use rights in the property is held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司) for a term of 50 years expiring on 18th April, 2052 for agricultural facility uses;
 - 3.2 The aforesaid building (except a single storey godown building with a gross floor area of 802 square metres) are held by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司);
 - 3.3 The property (except a single storey godown building with a gross floor area of 802 square metres) can be freely transferred, mortgaged or leased;
 - 3.4 The property (except a single storey godown building with a gross floor area of 802 square metres) is protected by law;
 - 3.5 The Building and Land Ownership Certificate for the single storey godown building, which is newly constructed by Heilongjiang Jumbo Ever Agriculture Co. Ltd. (黑龍江金保華農業有限公司), with a gross floor area of 802 square metres is under application. Upon obtaining the Building and Land Ownership Certificate, the single storey godown building can be freely transferred, mortgaged or leased; and
 - 3.6 Up to the date of the PRC legal opinion, the land use rights in the property and the aforesaid buildings (except a single storey godown building with a gross floor area of 802 square metres) is free from any encumbrances.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

The following is the text of a letter, a summary of value and valuation certificates, prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 31st January, 2006 of the Properties.

永利竹 評值顧問有限公司 | RHL Appraisal Ltd

Surveying Practices – Corporate Valuation and Property Consultancy
License No.: C-015672

HONG KONG 香港
Room 1010, Star House
Tsimshatsui, Hong Kong

香港尖沙咀星光行1010室

T +852 2730 6212
F +852 2736 9284
E info@rhl-int.com
W www.rhl-int.com

26th April, 2006

The Directors
Cheung Tai Hong Holdings Limited
29th Floor, Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

**Sanya Yalong Bay Sun Valley Golf Club, Bohou Village, Yalong Bay National Resort Area, Sanya, Hainan Province; and
Guangzhou Lotus Hill Golf Resort, Panyu, Guangzhou, Guangdong Province, the People's Republic of China (the "PRC")**

In accordance with the instructions from Cheung Tai Hong Holdings Limited (referred to as the "**Company**"), we have valued the captioned properties (referred to as the "**Properties**") situated in the PRC. We confirm that we have carried out inspection of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the Properties as at 31st January, 2006 (referred to as the "**valuation date**").

Basis of Valuation

The capital values of the Properties have been arrived at on the basis of "**Market Value**" which is intended to mean the estimated amount for which a property should exchange on the date of valuation 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.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Valuation Methodology

The Properties have been valued by the comparison method assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market.

Assumptions

Our valuations have been made on the assumption that the owners sell the Properties in the market in their existing states 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.

As the Properties are held by the owners on long term land use rights, we have assumed that the owners have free and uninterrupted right to use the Properties for the whole of the unexpired terms of their land use rights. Vacant possession is assumed for the Properties.

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

Title Investigation

We have been, in some instances, provided with some title documents relating to the Properties. However, we have not searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

We have also relied on the legal opinions given by the PRC legal advisers, 廣東南國德賽律師事務所 (D&S Law Firm), to the Company, on the relevant laws and regulations in the PRC and on the nature of the owner's interests in the Properties as at the valuation date.

Limiting Conditions

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

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors effective from 1st January, 2005.

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

We have carried out inspection of the Properties. However, we must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for the Properties. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

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

All monetary sums stated in this report are in Renminbi.

The valuation certificates are attached herewith.

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 are on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuers under the Hong Kong Business Valuation Forum and have over ten years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

SUMMARY OF VALUATION

Property	Market value in existing state as at 31st January, 2006
Group I – Property interests held for self occupation	
1. Sanya Yalong Bay Sun Valley Golf Club Bohou Village Yalong Bay National Resort Area Sanya Hainan Province, the PRC	No commercial value
2. Golf Course and Golf Clubhouse within Guangzhou Lotus Hill Golf Resort Panyu, Guangzhou Guangdong Province, the PRC	RMB100,000,000
Group II – Property held for future development	
3. Undeveloped Land for Villas and Apartments within Guangzhou Lotus Hill Golf Resort Panyu, Guangzhou Guangdong Province, the PRC	RMB96,000,000
Group III – Property held for sale	
4. Unit A104, A105, A201, A302, B208 and C214 Lian Tsui Yuan Lotus Hill Panyu, Guangzhou Guangdong Province, the PRC	RMB2,500,000
Grand Total:	<hr/> RMB198,500,000 <hr/>

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

VALUATION CERTIFICATE

Group I – Property interests held for self occupation

Property	Description	Particulars of occupancy	Capital value in existing state as at 31st January, 2006
1. Sanya Yalong Bay Sun Valley Golf Club Bohou Village Yalong Bay National Resort Area Sanya Hainan Province, the PRC (the “property”)	<p>Sanya Yalong Bay Sun Valley Golf Club covers a total area of 2,476,399 square metres which has been partially developed into a 18-hole golf course, a 2-storey golf clubhouse, a reservoir and some back-of-house facilities. The decoration work for the 2-storey golf clubhouse was in progress as at the valuation date.</p> <p>According to the development scheme of the Club Operator, a portion of the undeveloped land within the golf club with an area of about 166,668 square metres is planned for the development of bungalow villas and golfer lodge with a total gross floor area of not less than 251,200 square metres.</p>	As at the valuation date, the property was being operated by 三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co, Ltd.) as a golf and country club.	No commercial value

Notes:

1. PRC legal opinion on the property is summarised as follows:
 - 1.1 As revealed from a Land Use Right Certificate issued by Building and Land Administration Bureau of the Guangzhou Military Area (中國人民解放軍廣州軍區房地產管理局) on 5th July, 2000, a portion of the subject land with an area of 192,270.45 square metres was granted to 三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co., Ltd.), 44.45% equity interest of which is effectively owned by Everight, for a term of 50 years expiring on 31st January, 2050 for recreational, cultural and commercial uses. As the land is stemmed from military property, any property interest demised from it (including the interest held by 三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co., Ltd.) in the land) is prohibited from being assigned, leased, charged or otherwise disposed of on the market.
 - 1.2 Pursuant to various land contracting agreements entered into between various local villages (including 博後村委會紅光三隊, 六盤村委會, 紅色村, 博後新坡一, 三合作經濟社, 博後村委會新坡一隊, 博後村委會新坡二隊 and 博後村委會) and 三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co., Ltd.), 三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co., Ltd.) has been granted operating rights in certain portion of the subject land with a total land area of 1,395,772.71 square metres for terms of 50 years with expiry dates ranging from 6th June, 2049 to 31st October, 2053. Subject to payment of land use fee of approximately RMB280,000 (HK\$269,000) per annum to the local villages, the contracting agreements are valid and enforceable. The property interest of

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co., Ltd.) in the land which was derived from the contracting agreement is prohibited from being assigned, leased, charged or otherwise disposed of on the market.

- 1.3 As revealed from a Land Use Right Certificate (ref no. San Tu Fang 2003 Zhi No. 1309), the land use rights in the remaining portion of the subject land with an area of 441,667.04 square metres were granted to 三亞博後經濟開發有限公司 for a term of 50 years expiring on 1st March, 2051 by way of administrative allocation. Such land use rights are prohibited from being assigned, leased, charged or otherwise disposed of on the market.
 - 1.4 As approved by the Municipal Government of Sanya City via an instrument (ref no. San Fu 2000 No. 185) and the Land and Environmental Resources Bureau of Hainan Province via an instrument (ref no. 瓊土環資函2001 52號), the land portion mentioned in note 1.3 above is permitted to be used for Golf and Cultural Park of which an area of approximately 205,543 square metres is permitted for building/structure construction.
 - 1.5 By virtue of a joint venture agreement between 三亞博後經濟開發有限公司 (Party A) and 三亞亞龍灣風景高爾夫文化公園有限公司 (Sanya Yalong Bayview Golf Garden Co., Ltd.) (Party B), Party A agreed to contribute the land use rights in the land portion mentioned in note 1.3 above to the joint venture. Party B may pay the necessary fees and government charges to acquire the land. Meanwhile, the ownership of the land is remained with Party A.
2. The property has no commercial value due to its non-transferable nature. If it can be freely transferred on the market, its market value in existing state as at 31st December, 2005 would be RMB244,500,000.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st January, 2006								
2. Golf Course and Golf Clubhouse within Guangzhou Lotus Hill Golf Resort Panyu, Guangzhou Guangdong Province, the PRC (the "property")	<p>Guangzhou Lotus Hill Golf Resort covers a total land area of 740,268.9 square metres which has been partially developed into a 18-hole golf course, a driving range, a golf clubhouse and hotel complex.</p> <p>The total gross floor area of the property is 11,306.95 square metres which is broken down into the followings:</p> <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Users</th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Golf clubhouse and hotel Complex</td> <td style="text-align: right;">10,716.00</td> </tr> <tr> <td>Driving Range</td> <td style="text-align: right; border-top: 1px solid black;">590.95</td> </tr> <tr> <td>Total:</td> <td style="text-align: right; border-top: 3px double black;">11,306.95</td> </tr> </tbody> </table> <p>The subject site of Guangzhou Lotus Hill Golf Resort is being held under 4 sets of Land Use Right Certificate expiring on between 30th May, 2043 and 1st January, 2053.</p>	Users	Gross Floor Area (sq.m.)	Golf clubhouse and hotel Complex	10,716.00	Driving Range	590.95	Total:	11,306.95	As at the valuation date, the property was being operated by Guangzhou Panyu Lotus Hill Golf & Country Club (廣州番禺蓮花山高爾夫球度假俱樂部) as a golf and country club.	RMB100,000,000
Users	Gross Floor Area (sq.m.)										
Golf clubhouse and hotel Complex	10,716.00										
Driving Range	590.95										
Total:	11,306.95										

Notes:

1. According to 4 sets of Land Use Right Certificate (Ref Nos. 番府國用(2002)字第G09-000118號, 番府國用(2002)字第G09-000579號, 番府國用(2002)字第G09-000581號 and 番府國用(2003)字第G09-000196號) all issued by the Land Administration Bureau of Panya, the land use rights in Guangzhou Lotus Hill Golf Resort are being held by Guangzhou Panyu Lotus Hill Golf & Country Club (廣州番禺蓮花山高爾夫球度假俱樂部) for land use right terms expiring between 30th May, 2043 and 1st January, 2053.
2. As revealed by the aforesaid Land Use Right Certificates, the subject land is permitted for the following uses:
 - 2.1 land portion with an area of 255,053 square metres – tourism;
 - 2.2 land portion with an area of 230,591.1 square metres – tourism;
 - 2.3 land portion with an area of 213,290.0 square metres – composite; and
 - 2.4 land portion with an area of 41,334.8 square metres – cultural, sport and recreational.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

3. According to a Building and Land Ownership Certificate (Ref No. 1333981) issued by the Municipal Government of Panyu on 24th March, 2003, the golf clubhouse of the property with a gross floor area of 10,716 square metres is held by Guangzhou Panyu Lotus Hill Golf & Country Club (廣州番禺蓮花山高爾夫球度假俱樂部) for a term expiring on 22nd April, 2042.
4. PRC legal opinion on the property is summarised as follows:
 - 4.1 The existing uses of the property are in compliance with its permitted uses.
 - 4.2 The property is held by Guangzhou Panyu Lotus Hill Golf & Country Club (廣州番禺蓮花山高爾夫球度假俱樂部).
 - 4.3 A portion of the subject land with an area of 255,053 square metres is subject to two mortgages in aggregate of RMB12.0 million (HK\$11.5 million) both in favour of the Industry and Commerce Bank of China – Guangzhou Panyu Branch.
 - 4.4 Another portion of the subject land with an area of 230,591.1 square metres is subject to a mortgage of RMB17.0 million (HK\$16.3 million) in favour of Bank of China – Guangzhou Panyu Branch.
 - 4.5 Another portion of the subject land with an area of 213,290 square metres is subject to a mortgage of RMB6.0 million (HK\$5.8 million) in favour of Guangzhou Pan Cheng Village Credit Union (廣州市番城農村信用合作社).
 - 4.6 The golf clubhouse of the property is subject to a mortgage of RMB16.0 million (HK\$15.4 million) in favour of the Industry and Commerce Bank of China – Sanya Branch.

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Group II – Property held for future development

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st January, 2006										
3. Undeveloped Land for Villas and Apartments within Guangzhou Lotus Hill Golf Resort Panyu, Guangdong Province, the PRC (the “property”)	<p>The property being valued comprises undeveloped land parcels with a total area of 117,692.6 square metres lying adjacent to Guangzhou Lotus Hill Golf Resort of the golf club.</p> <p>As confirmed by Guangzhou Panyu Lotus Hill Golf & Country Club, the total permissible gross floor area of the golf club is 134,000 square metres of which a total of 50,871.76 square metres has been utilised by the golf club already. Accordingly, the remaining gross floor area that can be developed on the subject land parcels is 83,128.24 square metres.</p> <p>According to the development scheme provided by the property owner, the remaining gross floor area is proposed to be allocated for the following functional uses:</p> <table style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left; width: 30%;">Users</th> <th style="text-align: right; width: 70%;">Gross Floor Area <i>(sq.m.)</i></th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td style="text-align: right;">13,128.24</td> </tr> <tr> <td>Golf Villas</td> <td style="text-align: right;">40,000.00</td> </tr> <tr> <td>Golf Apartment</td> <td style="text-align: right; border-bottom: 1px solid black;">30,000.00</td> </tr> <tr> <td>Total:</td> <td style="text-align: right; border-bottom: 3px double black;">83,128.24</td> </tr> </tbody> </table> <p>The subject site is being held under 2 sets of Land Use Right Certificate expiring on 22nd April, 2052.</p>	Users	Gross Floor Area <i>(sq.m.)</i>	Hotel	13,128.24	Golf Villas	40,000.00	Golf Apartment	30,000.00	Total:	83,128.24	As at the valuation date, the property is either vacant or erected with temporary structures as staff accommodation and repair workshop.	RMB96,000,000
Users	Gross Floor Area <i>(sq.m.)</i>												
Hotel	13,128.24												
Golf Villas	40,000.00												
Golf Apartment	30,000.00												
Total:	83,128.24												

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Notes:

1. According to 2 sets of Land Use Right Certificate (Ref Nos. 番府國用(2002)字第G09-000580號 and 番府國用(2003)字第G09-000253號) all issued by the Land Administration Bureau of Panya, the land use rights in Guangzhou Lotus Hill Golf Resort are being held by Guangzhou Panyu Lotus Hill Golf & Country Club (廣州番禺蓮花山高爾夫球度假俱樂部) for land use right terms expiring on 22nd April, 2052.
2. As revealed by the aforesaid Land Use Right Certificates, the subject land is permitted for the following uses:
 - 2.1 land portion with an area of 69,608.5 square metres – tourism; and
 - 2.2 land portion with an area of 48,084.1 square metres – cultural, sport and recreational.
3. Our valuation has been arrived at on the basis that the owner of the property shall have no legal impediment for obtaining approval and consent for the aforesaid proposed uses (including hotel, golf villas and golf apartments) in due course.
4. As confirmed by the PRC legal opinion, the property is held by Guangzhou Panyu Lotus Hill Golf & Country Club (廣州番禺蓮花山高爾夫球度假俱樂部).

APPENDIX IV VALUATION REPORT OF PROPERTIES OF THE ENLARGED GROUP

Group III – Property held for sale

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31st January, 2006																		
4. Unit A104, A105, A201, A302, B208 and C214 Lian Tsui Yuan, Lotus Hill Panyu, Guangzhou Guangdong Province, the PRC (the “property”)	<p>The property being valued comprises a total of 6 apartments within 3 blocks of 5-storey apartment towers. As confirmed by the Owner, the total gross floor area of the Property is 962.12 square metres which is broken down into the followings:</p> <table border="0" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Unit</th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr><td>A104</td><td style="text-align: right;">121.30</td></tr> <tr><td>A105</td><td style="text-align: right;">105.32</td></tr> <tr><td>A201</td><td style="text-align: right;">237.54</td></tr> <tr><td>A302</td><td style="text-align: right;">179.68</td></tr> <tr><td>B208</td><td style="text-align: right;">159.14</td></tr> <tr><td>C214</td><td style="text-align: right;">159.14</td></tr> <tr><td colspan="2" style="border-top: 1px solid black;">Total:</td></tr> <tr><td colspan="2" style="border-top: 3px double black; text-align: right;">962.12</td></tr> </tbody> </table>	Unit	Gross Floor Area (sq.m.)	A104	121.30	A105	105.32	A201	237.54	A302	179.68	B208	159.14	C214	159.14	Total:		962.12		As at the valuation date, the property was vacant.	RMB2,500,000
Unit	Gross Floor Area (sq.m.)																				
A104	121.30																				
A105	105.32																				
A201	237.54																				
A302	179.68																				
B208	159.14																				
C214	159.14																				
Total:																					
962.12																					

The property is held for a term expiring on 28th February, 2071.

Notes:

1. According to a Commodity Building and Land Ownership Certificate (Registration No. 003460) issued by the Municipal Government of Panyu, the property is held by 番禺偉迪斯高爾夫房地產有限公司 (Pan Yu Wei Di Si Golf Property Company Limited), an indirect subsidiary of Everight (36.03% equity interests of which is effectively owned by Everight), for land use right terms expiring on 28th February, 2071.
2. As confirmed by the PRC legal opinion, the property is held by 番禺偉迪斯高爾夫房地產有限公司 (Pan Yu Wei Di Si Golf Property Company Limited).

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 herein misleading.

2. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

(a) Interests in securities

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of 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 Companies (the “**Model Code**”) adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Interest in Shares – long position

Name of Director	Capacity	Number of Shares held	Number of underlying Shares for 2005 August Note	Approximate percentage of the issued share capital of the Company
Mr. Ho	Interest of controlled corporation	113,636,363 (Note)	-	8.63
		-	227,272,727 (Note)	17.26
				25.89

Note:

Mr. Ho, a non-executive Director, is deemed to be interested in 113,636,363 Shares and 227,272,727 underlying Shares by virtue of his 50% interest in Kopola Investment Company Limited (“**Kopola**”), which beneficially owns HK\$100 million 2005 August Note at the conversion price of HK\$0.44 per Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (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, 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 adopted by the Company, to be notified to the Company and the Stock Exchange.

(b) Competing interest

As at the Latest Practicable Date, interests of the Directors and their respective associates in competing businesses were as follows:

Name of Director	Name of company	Nature of competing business	Nature of interest
Cheung Hon Kit ("Mr. Cheung")	Wing On Travel (Holdings) Limited and its subsidiaries	Property business in the PRC	As the managing director
	A non wholly-owned subsidiary of China Strategic Holdings Limited	Property business in the PRC	As a director
	China Development Limited	Property investment in Hong Kong	As a director and shareholder
	Artnos Limited	Property investment in Hong Kong	As a director and shareholder
	Co-Forward Development Ltd	Property investment in Hong Kong	As a director and shareholder
	Orient Centre Limited	Property investment in Hong Kong	As a shareholder
	Super Time Limited	Property investment in Hong Kong	As a director and shareholder
	Asia City Holdings Ltd	Property investment in Hong Kong	As a director and shareholder
	Supreme Best Ltd	Property investment in Hong Kong	As a shareholder

Name of Director	Name of company	Nature of competing business	Nature of interest
Mr. Ho	Miramar Hotel and Investment Company, Limited and its subsidiaries	Property investment, property development and sales	As a director
Lo Lin Shing, Simon ("Mr. Lo")	The Kwong Sang Hong International Limited and its subsidiaries	Property development, sales of properties and property leasing	As a director
	Besteam Limited and its subsidiaries	Property development and property investment	As a director
	New World Cyberbase Limited and its subsidiaries	Property investment	As the chairman and an executive director

Mr. Cheung is the chairman of the Company who is principally responsible for the Group's strategic planning and management of the operations of the Board. His role is clearly separated from that of the managing Director, Mr. Chan Fut Yan, who is principally responsible for the Group's operation and business development. Mr. Ho and Mr. Lo, being non-executive Directors, do not participate in the daily management of the Group.

In addition, any significant business decision of the Group is to be determined by the Board. A Director who has interest in the subject matter being resolved will abstain from voting. In view of the above, the Board considers that the interests of Mr. Cheung, Mr. Ho and Mr. Lo in other companies will not prejudice their capacity as Directors nor compromise the interest of the Company and the Shareholders.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates were interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(c) Other interests

The Board confirmed that none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31st March, 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

3. INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions 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, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Long position

Name of holder	Capacity	Number of issued Shares	Number of underlying Shares for 2005 August Note (Note 1)	Aggregate interest	Approximate percentage of issued share capital of the Company
Chu Yuet Wah	Interest of controlled corporation	272,727,272 (Note 2)	–	272,727,272	20.71
		–	750,000,000 (Note 2)	750,000,000	56.96
				<u>1,022,727,272</u>	<u>77.67</u>
Ma Siu Fong	Interest of controlled corporation	272,727,272 (Note 2)	–	272,727,272	20.71
		–	750,000,000 (Note 2)	750,000,000	56.96
				<u>1,022,727,272</u>	<u>77.67</u>
Kingston Finance Limited ("Kingston")	Security interest	272,727,272 (Note 2)	–	272,727,272	20.71
		–	750,000,000 (Note 2)	750,000,000	56.96
				<u>1,022,727,272</u>	<u>77.67</u>
Loyal Concept Ltd. ("Loyal Concept")	Beneficial owner	272,727,272 (Note 3)	–	272,727,272	20.71
		–	750,000,000 (Note 3)	750,000,000	56.96
				<u>1,022,727,272</u>	<u>77.67</u>
Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics")	Interest of controlled corporation	272,727,272 (Note 3)	–	272,727,272	20.71
		–	750,000,000 (Note 3)	750,000,000	56.96
				<u>1,022,727,272</u>	<u>77.67</u>
Hanny Holdings Limited ("Hanny Holdings")	Interest of controlled corporation	272,727,272 (Note 3)	–	272,727,272	20.71
		–	750,000,000 (Note 3)	750,000,000	56.96
				<u>1,022,727,272</u>	<u>77.67</u>

Name of holder	Capacity	Number of issued Shares	Number of underlying Shares for 2005 August Note (Note 1)	Aggregate interest	Approximate percentage of issued share capital of the Company
Kopola	Beneficial owner	113,636,363	–	113,636,363	8.63
		–	227,272,727	227,272,727	17.26
			(Note 4)		<u>340,909,090</u>
Mr. Ho	Interest of controlled corporation	113,636,363	–	113,636,363	8.63
		–	227,272,727	227,272,727	17.26
			(Note 4)		<u>340,909,090</u>
Ho Hau Hay, Hamilton	Interest of controlled corporation	113,636,363	–	113,636,363	8.63
		–	227,272,727	227,272,727	17.26
			(Note 4)		<u>340,909,090</u>
Centar Investments (Asia) Ltd. (“Centar”)	Beneficial owner	22,727,272	–	22,727,272	1.73
		–	21,590,909	21,590,909	1.64
			(Note 5)		<u>44,318,181</u>
Shepherd Investments International, Ltd. (“Shepherd”)	Beneficial owner	102,272,727	–	102,272,727	7.77
		–	97,159,090	97,159,090	7.38
			(Note 5)		<u>199,431,817</u>
Stark Asia Master Fund Ltd. (“Stark Asia”)	Beneficial owner	61,363,636	–	61,363,636	4.66
		–	58,295,454	58,295,454	4.43
			(Note 5)		<u>119,659,090</u>
Stark International	Beneficial owner	40,909,090	–	40,909,090	3.11
		–	38,863,636	38,863,636	2.95
			(Note 5)		<u>79,772,726</u>

Name of holder	Capacity	Number of issued Shares	Number of underlying Shares for 2005 August Note (Note 1)	Aggregate interest	Approximate percentage of issued share capital of the Company
Stark Investments (Hong Kong) Limited ("Stark HK")	Interest of controlled corporations	227,272,725 (Note 5)	–	227,272,725	17.26
		–	215,909,089 (Note 5)	215,909,089	16.40
				<u>443,181,814</u>	<u>33.66</u>
OZ Asia Master Fund, Ltd. ("OZ Asia")	Beneficial owner	7,556,818 (Note 6)	–	7,556,818	0.57
		–	44,261,363 (Note 6)	44,261,363	3.36
				<u>51,818,181</u>	<u>3.93</u>
OZ Master Fund, Ltd. ("OZ Master")	Beneficial owner	32,215,909 (Note 6)	–	32,215,909	2.45
		–	181,875,000 (Note 6)	181,875,000	13.81
				<u>214,090,909</u>	<u>16.26</u>
OZ Management, L.L.C. ("OZ Management")	Interest of controlled corporations	39,772,727 (Note 6)	–	39,772,727	3.02
		–	226,136,363 (Note 6)	226,136,363	17.17
				<u>265,909,090</u>	<u>20.19</u>
Highbridge International LLC ("Highbridge International")	Beneficial owner	45,454,545 (Note 7)	–	45,454,545	3.45
		–	45,454,545 (Note 7)	45,454,545	3.45
				<u>90,909,090</u>	<u>6.90</u>
Highbridge Capital Management LLC ("Highbridge Capital")	Investment manager	45,454,545 (Notes 7 and 9)	–	45,454,545	3.45
		–	45,454,545 (Notes 7 and 9)	45,454,545	3.45
				<u>90,909,090</u>	<u>6.90</u>
Highbridge GP, Ltd. ("Highbridge GP")	Interest of controlled corporation	45,454,545 (Notes 7 and 8)	–	45,454,545	3.45
		–	45,454,545 (Notes 7 and 8)	45,454,545	3.45
				<u>90,909,090</u>	<u>6.90</u>

Name of holder	Capacity	Number of issued Shares	Number of underlying Shares for 2005 August Note (Note 1)	Aggregate interest	Approximate percentage of issued share capital of the Company
Clive Harris	Interest of controlled corporation	45,454,545 (Note 8)	-	45,454,545	3.45
		-	45,454,545 (Note 8)	45,454,545	3.45
				90,909,090	6.90
Michael Austin	Interest of controlled corporation	45,454,545 (Note 8)	-	45,454,545	3.45
		-	45,454,545 (Note 8)	45,454,545	3.45
				90,909,090	6.90
JPMorgan Chase & Co. ("JPMorgan")	Interest of controlled corporation	51,954,545 (Note 9)	-	51,954,545	3.95
		-	45,454,545 (Note 9)	45,454,545	3.45
				97,409,090	7.40

Notes:

- The underlying Shares represent the new Shares to be issued upon full conversion of the 2005 August Note held by respective holders of the convertible notes at a conversion price of HK\$0.44 per Share issued by the Company on 11th August, 2005.
- Mrs. Chu Yuet Wah and Ms. Ma Siu Fong own 51% and 49% interest in Kingston respectively which beneficially owns a security interest of 272,727,272 Shares and HK\$330 million 2005 August Note held by Loyal Concept.
- Hanny Holdings and Hanny Magnetics were taken to have an interest in 272,727,272 Shares and HK\$330 million 2005 August Note held by Loyal Concept since Loyal Concept is a wholly-owned subsidiary of Hanny Magnetics which, in turn, is a wholly-owned subsidiary of Hanny Holdings, shares of which are listed on the Stock Exchange.
- Each of Mr. Ho, a non-executive Director, and his brother, Mr. Ho Hau Hay, Hamilton owns 50% interest in Kopola which beneficially owns 113,636,363 Shares and HK\$100 million 2005 August Note.
- Stark HK was taken to have an interest in 227,272,725 Shares and HK\$95 million 2005 August Note held by Centar, Shepherd, Stark Asia and Stark International.
- OZ Management was taken to have an interest in 39,772,727 Shares and HK\$99.5 million 2005 August Note held by OZ Asia and OZ Master.
- Highbridge GP was taken to have an interest in 45,454,545 Shares and HK\$20 million 2005 August Note held by Highbridge International since Highbridge International is a wholly-owned subsidiary of Highbridge Asia Opportunities Master L.P. ("**Highbridge Asia**") which, in turn, is a wholly-owned subsidiary of Highbridge GP. Highbridge Capital is an investment manager of Highbridge Asia.

8. Each of Mr. Clive Harris and Mr. Michael Austin owns 50% interest in Highbridge GP.
9. As at the Latest Practicable Date, JPMorgan was interested in 6,500,000 Shares. In addition, JPMorgan was taken to have an interest in 45,454,545 Shares and HK\$20 million 2005 August Note deemed to be interested by Highbridge Capital since Highbridge Capital is 55% owned by JPMorgan Asset Management Holdings Inc. which, in turn, is a wholly-owned subsidiary of JPMorgan.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

4. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business) entered into by the Company or its subsidiaries within the two years preceding the Latest Practicable Date and which are or may be material:

1. Sale and purchase agreement dated 19th March, 2004 entered into between China Strategic Holdings Limited as vendor and Cheung Tai Hong (B.V.I.) Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of 100% equity interest in Tung Fong Hung Investment Limited for a consideration of HK\$42 million of which HK\$35.5 million was paid in cash and HK\$6.5 million by the issue of a promissory note;
2. Sale and purchase agreement dated 19th March, 2004 entered into between Chelson Limited as vendor and Cheung Tai Hong (B.V.I.) Limited, a wholly-owned subsidiary of the Company, as purchaser and the Company as guarantor in relation to the acquisition of 50% equity interest in Pacific Wins Development Ltd. for a consideration of HK\$28 million of which HK\$6.5 million was paid in cash, HK\$6.5 million by the issue of a promissory note and HK\$15 million by the issue of a convertible note;
3. Sale and purchase agreement dated 16th July, 2004 entered into between Fountain Property Limited, a wholly-owned subsidiary of the Company as vendor, and Earn City Limited as purchaser, in relation to the disposal of the food court on 2nd Floor, Hunghom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Kowloon, Hong Kong for a cash consideration of HK\$5 million;
4. Placing agreement dated 15th December, 2004 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to the issue of the 2005 February Note;
5. Placing agreement dated 15th December, 2004 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to the placing of 150 million new Shares at HK\$0.4 per Share by the Company;

6. Placing agreement dated 28th December, 2004 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to the placing of 25 million new Shares at HK\$0.81 per Share by the Company;
7. Placing agreement dated 20th April, 2005 entered into between the Company and Tai Fook Securities Company Limited as placing agent in relation to HK\$44 million of the 2005 August Note;
8. Seven subscription agreements dated 8th April, 2005 entered into between the Company and each of the seven subscribers respectively whose funds were managed by global asset management firms in relation to HK\$356 million of the 2005 August Note;
9. Subscription agreement dated 20th April, 2005 entered into between the Company and Kopola as subscriber in relation to HK\$150 million of the 2005 August Note;
10. Subscription agreement dated 20th April, 2005 entered into between the Company and Loyal Concept as subscriber in relation to HK\$450 million of the 2005 August Note;
11. the Acquisition Agreement; and
12. Sale and purchase agreement dated 29th March, 2006 entered into between Million Orient Limited, a wholly-owned subsidiary of the Company as purchaser, and Pacific Wish Limited as vendor, in relation to the acquisition of 40% equity interest in Orient Town Limited for a cash consideration of HK\$280. Pursuant to the sale and purchase agreement, Million Orient Limited undertakes to advance loan(s) up to HK\$885 million to Orient Town Limited.

5. CLAIMS AND LITIGATIONS

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

6. EXPERTS AND CONSENTS

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

Name	Qualification
Deloitte Touche Tohmatsu (“DTT”)	Certified Public Accountants
RHL Appraisal Ltd. (“RHL”)	Professional valuers
廣東南國德賽律師事務所 (D&S Law Firm, “D&S”)	PRC lawyers
廣東東方金源律師事務所 (Jin & Partners Law Firm, “Jin & Partners”)	PRC lawyers

Each of DTT, RHL, D&S and Jin & Partners has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or references to its name in the form and context in which they respectively appear.

None of DTT, RHL, D&S and Jin & Partners has any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of DTT, RHL, D&S and Jin & Partners had any direct or indirect interests in any assets which had been, since 31st March, 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 29/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, from the date of this circular and up to and including 23rd May, 2006:

- the memorandum and bye-laws of the Company;
- the material contracts referred to in the section headed "Material contracts" in this appendix;
- the published audited consolidated financial statements of the Company for each of the two financial years ended 31st March, 2005;
- the circular of the Company dated 23rd May, 2005 in respect of the issue of the 2005 August Note;
- the interim report of the Company for the six months ended 30th September, 2005;
- the accountants' report of Everight Group, the text of which is set out in Appendix II to this circular;

- the written statement of adjustments signed by DTT setting out the adjustments made and the reasons for the adjustments in respect of the accountants' report of Everight Group as set out in Appendix II to this circular;
- the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- the valuation reports of properties of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- the legal opinion issued by D&S in respect of the Properties;
- the legal opinion issued by Jin & Partners in respect of the existing properties of the Group; and
- the letters of consent referred to under the section headed "Experts and consents" in this appendix.

9. MISCELLANEOUS

- The qualified accountant of the Company is Cheung Chi Kit, *CPA, A.C.S., A.C.I.S.*
- The company secretary of the Company is Yan Ha Hung, *Loucia, MBA, A.C.S., A.C.I.S.*
- The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda.
- The Company's principal place of business in Hong Kong is situated at 29/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- The branch share registrars and transfer office of the Company is Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- The English text of this circular prevails over the Chinese text.

NOTICE OF THE SGM



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

NOTICE IS HEREBY GIVEN that a special general meeting of Cheung Tai Hong Holdings Limited (“**Company**”) will be held on Tuesday, 23rd May, 2006 at 11:00 a.m. at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as an ordinary resolution and special resolution respectively of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

- (i) the sale and purchase agreement dated 2nd February, 2006 (“**Acquisition Agreement**”, a copy of which has been produced to this meeting and marked “**A**” and signed by the Chairman of the meeting for the purpose of identification) entered into between New Smarten Limited (“**New Smarten**”), an indirect wholly-owned subsidiary of the Company, as purchaser and Green Label Investments Limited (“**Green Label**”), Magnum Company Limited (“**Magnum**”), Concord Link Development Limited and Mr. Ku Yuet Kan, Tony as vendors (“**Vendors**”) and Mr. Lai Tsan Tung, David and Mr. Chan Jink Chou, Eric as guarantors whereby, inter alia,
 - (a) New Smarten conditionally agreed to purchase from the Vendors the entire share capital of and in Everight Investment Limited (“**Everight**”) and certain loan due by Everight and its subsidiaries to Green Label on completion of the Acquisition Agreement at an aggregate consideration of HK\$140 million (“**Consideration**”) to be satisfied (i) as to a sum of HK\$80 million in cash and (ii) as to an aggregate sum of HK\$60 million by way of issue of two zero coupon convertible notes due on 11th August, 2010 in the principal amount of HK\$39,272,307 to Green Label (“**Green Label Note**”) and HK\$20,727,693 to Magnum (“**Magnum Note**”) respectively, at an initial conversion price of HK\$0.44 per share (subject to adjustments), the terms and conditions of the Green Label Note and the Magnum Note (collectively the “**Notes**”) having been annexed as Schedule 5 to the Acquisition Agreement; and
 - (b) the Company shall, on completion of the Acquisition Agreement, enter into a shareholders’ agreement (“**Shareholders’ Agreement**”, a copy of which is annexed as Schedule 3 to the Acquisition Agreement) in respect of Smart Sharp Investment Limited;

and the transactions contemplated thereunder, be and are hereby approved;

* For identification purpose only

NOTICE OF THE SGM

- (ii) the Shareholders' Agreement and the transactions contemplated thereunder be and are hereby approved;
- (iii) the issue of the Notes and the issue and allotment to the holder(s) of the Note(s), upon due exercise of the conversion rights attached to the Note(s), of the shares in the capital of the Company, pursuant to and in accordance with the terms and conditions of the Note(s), be and are hereby approved; and
- (iv) the directors of the Company be and are hereby authorised to execute any documents and instruments as may be necessary or incidental to completion of the Acquisition Agreement, the Shareholders' Agreement and the Notes and to do all such acts and things they consider necessary, desirable or expedient for the implementation of the Acquisition Agreement, the Shareholders' Agreement and the Notes and any of the transactions contemplated thereunder."

SPECIAL RESOLUTION

- 2. "THAT subject to the approval of the Registrar of Companies in Bermuda being obtained, the name of the Company be changed from "Cheung Tai Hong Holdings Limited" to "Macau Prime Properties Holdings Limited" and the new Chinese name of "澳門祥泰地產集團有限公司" be adopted by the Company to replace the existing Chinese name of "祥泰行集團有限公司" for identification purpose only and the Directors be and are hereby authorised generally to do such acts and things and execute all documents or make such arrangements as they may consider necessary or expedient to effect the change of name."

Yours faithfully,
By order of the Board
Cheung Tai Hong Holdings Limited
Yan Ha Hung, Loucia
Company Secretary

Hong Kong, 26th April, 2006

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
29/F., Paul Y. Centre
51 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

NOTICE OF THE SGM

- (2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrars and transfer office, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.
- (4) In case of joint holders of any share, if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

As at the date hereof, the board of directors of the Company comprises Mr. Cheung Hon Kit (Chairman) and Mr. Chan Fut Yan (Managing Director) as executive directors, Mr. Ho Hau Chong, Norman (Deputy Chairman) and Mr. Lo Lin Shing, Simon as non-executive directors, and Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Chui Sai Cheong as independent non-executive directors.