

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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 ITC Properties Group 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



德祥地產集團有限公司\*

**ITC PROPERTIES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code : 199)**

**DISCLOSEABLE, CONNECTED AND  
CONTINUING CONNECTED TRANSACTIONS**

**Financial adviser to ITC Properties Group Limited**



**Optima Capital Limited**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



**First Shanghai Capital Limited**

A notice convening the special general meeting of ITC Properties Group Limited to be held at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Monday, 4th February, 2008 at 11:00 a.m. is set out on pages 58 and 59 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 registrar and transfer office of ITC Properties Group Limited in Hong Kong, Tricor 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 appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting 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:*

“2005 August Note”	the zero coupon convertible notes due 2010 in the aggregate principal amount of HK\$1,000 million issued by the Company on 11th August, 2005, of which an aggregate principal amount of HK\$471,050,000 remained outstanding as at the Latest Practicable Date
“2006 June Note”	the 1% convertible notes due 2011 in the aggregate principal amount of HK\$1,000 million issued by the Company on 15th June, 2006, of which an aggregate principal amount of HK\$906,000,000 remained outstanding as at the Latest Practicable Date
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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”	ITC Properties Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the change in registration of shareholder from the Vendor to the Purchaser in respect of the transfer of the shares under each of the Disposal Agreements
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate cash consideration for the Disposal of RMB20 million (equivalent to approximately HK\$20.5 million)
“Development Project”	a property project involving the development of a parcel of land with a site area of approximately 48,000 sq. m. within the Lotus Hill Golf Resort

## DEFINITIONS

“Development Project Agreement”	the agreement to be entered into between Donson or Newco A and Panyu Golf in relation to the co-operation arrangement for the Development Project
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of interests in Panyu Golf, Wei Di Si and Lian Chui by Donson to the Purchaser
“Disposal Agreement(s)”	collectively, the Panyu Golf Agreement, Wei Di Si Agreement and Lian Chui Agreement
“Donson” or “Vendor”	Donson (International) Development Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Donson Group”	Donson and its subsidiaries
“Everight”	Everight Investment Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Everight Acquisition”	the acquisition of 100% issued share capital in Everight pursuant to the Everight Agreement
“Everight Agreement”	the agreement dated 2nd February, 2006 entered into among New Smarten and various parties including Mr. Lai in respect of the Everight Acquisition, details of which are set out in the circular of the Company dated 26th April, 2006
“Everight Group”	Everight and its subsidiaries
“First Shanghai”	First Shanghai Capital Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal Agreements and the Development Project Agreement
“Framework Agreement”	a legally binding framework agreement dated 28th November, 2007 entered into among Donson, 番禺旅游 and the Purchaser in relation to the Disposal, the co-operation arrangement for the Development Project and the lease of the Lotus Hill Golf Resort

## DEFINITIONS

“Group”	the Company and its subsidiaries
“HK GAAP”	generally accepted accounting principles applicable in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Chui Sai Cheong, being three independent non-executive Directors
“Independent Shareholders”	Shareholders other than 番禺旅游, the Purchaser and their respective associates
“Latest Practicable Date”	14th January, 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Lease Agreement”	the agreement to be entered into between Donson or Newco B as lessee and Panyu Golf as lessor for the lease of the Lotus Hill Golf Resort
“Lian Chui”	Guangzhou Lian Chui Property Management Company Limited (廣州市蓮翠房產物業管理有限公司), a company incorporated in the PRC of which Donson has a 65% interest in its registered capital
“Lian Chui Agreement”	the agreement dated 28th November, 2007 entered into between Donson and the Purchaser for the disposal of Donson’s entire interest in Lian Chui
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the working capital loan to be provided by Donson or Newco A to Panyu Golf for use in the Development Project
“Long Stop Date”	31st January, 2008 or such other date as the relevant parties may agree in writing
“Lotus Hill Golf Resort”	the golf resort known as “Guangzhou Lotus Hill Golf Resort” which comprises golf course and golf clubhouse within Panyu, Guangzhou, Guangdong Province, the PRC

## DEFINITIONS

“Mr. Chan”	Chan Jink Chou, Eric (陳正秋), the then beneficial owner of the entire issued share capital of Magnum Company Limited and the then controlling shareholder of Concord Link Development Limited which are two of the vendors under the Everight Agreement
“Mr. Lai”	Lai Tsan Tung, David (賴贊東), an executive Director
“New Smarten”	New Smarten Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Newco A”	a wholly-owned subsidiary of the Company to be incorporated in the PRC to act as a party to the Development Project
“Newco B”	a wholly-owned subsidiary of the Company to be incorporated in the PRC to act as the lessee to the Lease Agreement
“番禺旅游”	廣州市番禺旅游總公司
“Panyu Golf”	Guangzhou Panyu Lotus Golf & Country Club Co., Ltd. (廣州番禺蓮花山高爾夫球度假俱樂部有限公司), a company incorporated in the PRC of which Donson has a 65% interest in its registered capital
“Panyu Golf Agreement”	the agreement dated 28th November, 2007 entered into between Donson and the Purchaser for the disposal of Donson’s entire interest in Panyu Golf
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this circular
“PRC Legal Advisers”	Guangdong Code Law Office (廣東科德律師事務所); 廣東省司法廳頒發的執業律師
“Purchaser”	廣州市番禺協誠實業有限公司, a company incorporated in the PRC
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve, by way of poll, the Panyu Golf Agreement, the Wei Di Si Agreement, the Lian Chui Agreement, the Development Project Agreement and the respective transactions contemplated thereunder, the notice of which is set out on pages 58 and 59 of this circular, or any adjournment thereof

## DEFINITIONS

“Share(s)”	share(s) of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Deed”	the deed of variation dated 28th November, 2007 entered into among New Smarten, Green Label Investments Limited, Concord Link Development Limited, Magnum Company Limited, Mr. Lai and Mr. Chan to vary certain warranties and guarantees given by the vendors of the Everight Agreement
“Wei Di Si”	Guangzhou Panyu Wei Di Si Golf Property Company Limited (廣州市番禺偉迪斯高爾夫房地產有限公司), a company incorporated in the PRC of which Donson has 64.83% interest in its registered capital
“Wei Di Si Agreement”	the agreement dated 28th November, 2007 entered into between Donson and the Purchaser for the disposal of Donson’s entire interest in Wei Di Si
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.
“sq. m.” or “m <sup>2</sup> ”	square metre

*In this circular, RMB are converted into HK\$ on the basis of HK\$1 = RMB0.974 for illustrative purpose.*

*For ease of reference, the names of PRC established companies and entities have been included in this circular in both Chinese and English languages and the English names of these companies and entities are either English translation of their respective official Chinese names or English tradenames used by them. In the event of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.*

## LETTER FROM THE BOARD



德祥地產集團有限公司\*

**ITC PROPERTIES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code : 199)**

*Executive Directors:*

Mr. Cheung Hon Kit (*Chairman*)  
Mr. Chan Fut Yan (*Managing Director*)  
Mr. Wong Kam Cheong, Stanley  
*(Deputy Managing Director)*  
Mr. Cheung Chi Kit  
Mr. Lai Tsan Tung, David  
Mr. Ma Chi Kong, Karl

*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

17th January, 2008

*To the Shareholders and, for information only,  
holders of convertible notes of the Company*

Dear Sir or Madam,

### **DISCLOSEABLE, CONNECTED AND CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

On 28th November, 2007, Donson, an indirect wholly-owned subsidiary of the Company, entered into the Framework Agreement and the Disposal Agreements in relation to:

- (i) the disposal by Donson of its interests in Panyu Golf, Wei Di Si and Lian Chui to the Purchaser for an aggregate cash consideration of RMB20 million (equivalent to approximately HK\$20.5 million);
- (ii) the co-operation between Panyu Golf and Newco A in the Development Project in which the Group will have the right to share 65% of its residual value. Under the terms of the Development Project Agreement, the Group will provide the Loan of RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf for use in the Development Project; and

\* For identification purpose only



## LETTER FROM THE BOARD

- (iii) the lease of the Lotus Hill Golf Resort by Panyu Golf to Newco B for three years commencing from the date of the Lease Agreement at an annual rental of RMB5 million (equivalent to approximately HK\$5.1 million) renewable at the option of Newco B at successive terms of 3 years up to 20 years.

Completion of the aforesaid transactions are inter-conditional with each other.

As a condition of the Everight Agreement in relation to the acquisition of 55.57% indirect interest in Donson by New Smarten dated 2nd February, 2006, the vendors thereof had given undertakings in favour of New Smarten for certain performance of the Donson Group, which are guaranteed by Mr. Lai and Mr. Chan. New Smarten and, inter alia, Mr. Lai and Mr. Chan have entered into the Supplemental Deed, which will be effective upon Completion, to vary such undertakings in light of the Disposal.

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. By virtue of the fact that 番禺旅游 and the Purchaser are under common control, Panyu Golf is a connected person under Rule 14A.11(4) of the Listing Rules and all agreements under the Framework Agreement are inter-conditional with each other, the Disposal and the provision of the Loan also constitute connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders. The transaction contemplated under the Lease Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. As each of the percentage ratios (other than the profits ratio) on an annual basis is less than 2.5%, the transaction contemplated under the Lease Agreement is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the Independent Shareholders' approval requirement.

番禺旅游, the Purchaser, Panyu Golf and their associates are connected persons with a material interest in the aforesaid transactions. Accordingly, they are required to abstain from voting on the resolutions in relation to the Disposal Agreements and the Development Project Agreement including the provision of the Loan. As at the Latest Practicable Date, 番禺旅游, the Purchaser and Panyu Golf did not have any shareholding interests in the Company.

An Independent Board Committee has been constituted by the Company to advise the Independent Shareholders, and First Shanghai has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders, as regards the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan.

The purpose of this circular is to provide you with, among other things, further details of the Framework Agreement, the Disposal Agreements, the Development Project Agreement, the Lease Agreement, the Supplemental Deed, the notice of the SGM and other information as required under the Listing Rules.

## LETTER FROM THE BOARD

### BACKGROUND

Panyu Golf, Wei Di Si and Lian Chui are the PRC joint ventures in which Donson, an indirect wholly-owned subsidiary of the Company, has effective interests of 65%, 64.83% and 65% respectively while 番禺旅游 owns the remaining interests in Panyu Golf and Lian Chui and 34.91% in Wei Di Si respectively. Pursuant to 外商投資產業指導目錄(2007年修訂) as jointly announced by the National Development and Reform Commission and Ministry of Commerce of the PRC on 7th November, 2007, foreign investors including Hong Kong investors are prohibited to develop and operate on golf course(s) in the PRC unless relevant permits have been granted prior to 1st December, 2007. The contract period for the joint venture of Panyu Golf should have expired on 17th September, 2007, but was extended for 6 months to 17th March, 2008 by mutual agreement of the parties with a view to facilitating the negotiation between Donson and 番禺旅游 for the re-arrangement of the joint ventures since Donson can no longer remain as a foreign investor in Panyu Golf after the expiry of the contract period. On 28th November, 2007, Donson entered into the Framework Agreement with 番禺旅游 and the Purchaser, which is under common control as 番禺旅游, in relation to:

- (i) the disposal by Donson of its entire interests in Panyu Golf, Wei Di Si and Lian Chui to the Purchaser for an aggregate cash consideration of RMB20 million (equivalent to approximately HK\$20.5 million), details of which are set out in the section headed "The Disposal Agreements" below;
- (ii) the co-operation between Panyu Golf and Newco A in the Development Project, in which Newco A will have the right to share 65% of its residual value. Under the terms of the Development Project Agreement, the Group will provide the Loan of RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf. Details of the Development Project Agreement are set out in the section headed "The Development Project Agreement" below; and
- (iii) the lease of the Lotus Hill Golf Resort by Panyu Golf to Newco B for three years commencing from the date of the Lease Agreement at an annual rental of RMB5 million (equivalent to approximately HK\$5.1 million), details of which are set out in the section headed "The Lease Agreement" below.

#### A. The Disposal Agreements

Pursuant to the Framework Agreement, Donson and the Purchaser entered into 3 separate agreements in respect of the sale and purchase of shares in Panyu Golf, Wei Di Si and Lian Chui respectively on 28th November, 2007. Completion of each of the Disposal Agreements is inter-conditional with each other. The principal terms of the Panyu Golf Agreement, Wei Di Si Agreement and Lian Chui Agreement are summarised as follows:

##### 1. *Parties to each of the Disposal Agreements*

Vendor: Donson, an indirect wholly-owned subsidiary of the Company;  
and

## LETTER FROM THE BOARD

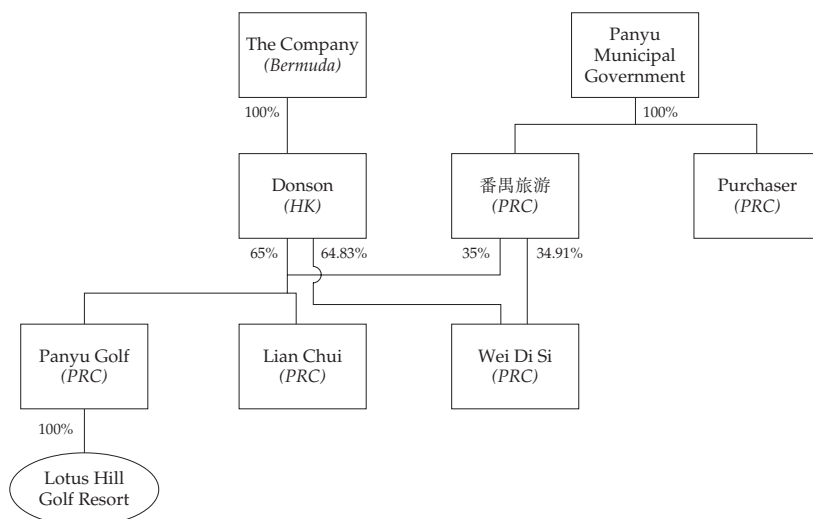
Purchaser: 廣州市番禺協誠實業有限公司, a company incorporated in the PRC with limited liability, which is an investment holding company controlled by the Panyu Municipal Government, the PRC. 番禺旅游, also controlled by the Panyu Municipal Government, is currently a substantial shareholder of Panyu Golf, Wei Di Si and Lian Chui which are subsidiaries of the Company. 番禺旅游 and the Purchaser are therefore connected persons of the Company.

2. *Interests to be disposed of by Donson:*

- (i) Under the Panyu Golf Agreement: the entire interest of Donson in Panyu Golf, representing 65% of its registered capital of RMB46 million;
- (ii) Under the Wei Di Si Agreement: the entire interest of Donson in Wei Di Si, representing 64.83% of its registered capital of RMB19,550,000; and
- (iii) Under the Lian Chui Agreement: the entire interest of Donson in Lian Chui, representing 65% of its registered capital of RMB500,000.

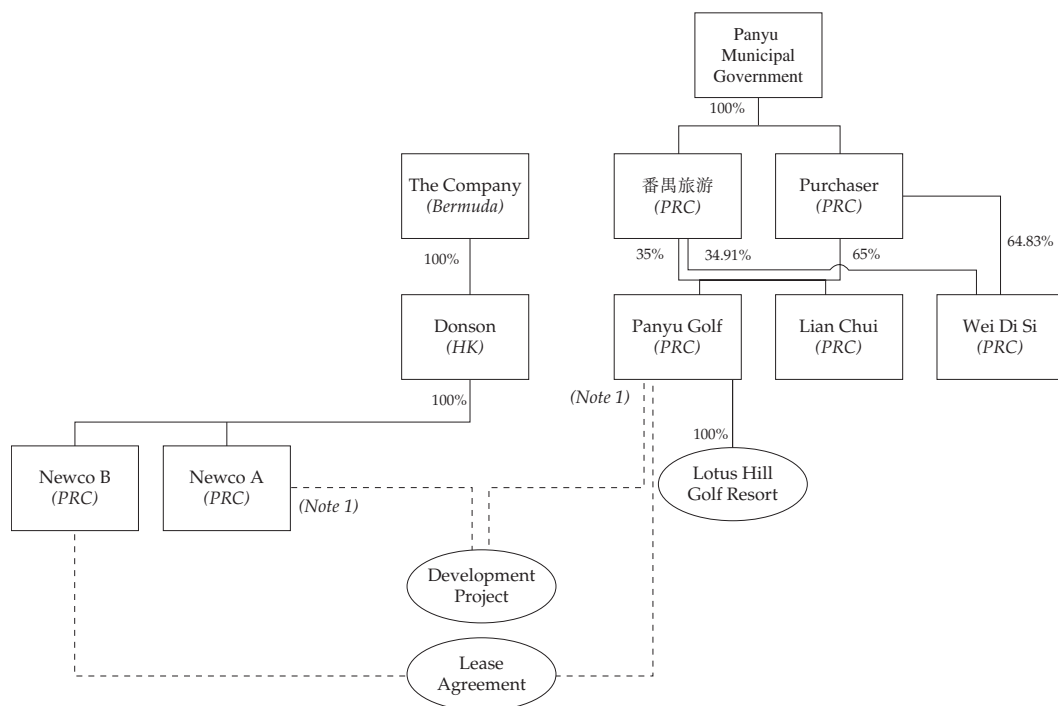
Set out below is the corporate structure of Panyu Golf, Wei Di Si and Lian Chui:

**Before completion of the Disposal, signing of  
the Development Project Agreement and the Lease Agreement**



# LETTER FROM THE BOARD

## Immediately after completion of the Disposal, signing of the Development Project Agreement and the Lease Agreement



*Notes:*

1. The management committee of the Development Project will comprise 4 persons, with each of Newco A and Panyu Golf having the right to appoint 2 persons. All essential financial and operating policies of the Development Project are to be governed by the management committee, normally by a majority vote in a management committee meeting. Neither the Group nor Panyu Golf shall have unilateral control over the composition of the management committee or the voting rights at any management committee meeting.
2. Places in parentheses represent places of incorporation.

Panyu Golf owns the Lotus Hill Golf Resort, which commenced business in 1995. The resort comprises a golf course, a club-house equipped with facilities including guest rooms, food and beverage outlets, fitness centre and sauna, and 9 residential units which are currently leased out under long-term leases. Other than these facilities, there is also a parcel of land within the Lotus Hill Golf Resort which is currently vacant. The application for the development of villas on the aforesaid land has been approved by relevant government authorities and it is intended that about 60 villas with total gross floor area of approximately 23,000 sq. m. will be built thereon.

Wei Di Si is engaged in property development and was the developer of a property project comprising over 70 apartment units within the Lotus Hill Golf Resort, which were sold in prior years.

## LETTER FROM THE BOARD

Lian Chui is engaged in property management which manages portfolio including the residential properties within the Lotus Hill Golf Resort.

Set out below is the unaudited financial information of Panyu Golf, Wei Di Si and Lian Chui for each of the two years ended 31st December, 2005 and 2006 prepared in accordance with the HK GAAP:

	Year ended 31st December,					
	2006			2005		
	Panyu Golf	Wei Di Si	Lian Chui	Panyu Golf	Wei Di Si	Lian Chui
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Turnover	38.7	3.5	1.7	44.5	3.6	1.4
Profit (Loss) before taxation	(4.8)	0.4	-	2.5	(0.2)	0.1
Profit (Loss) after taxation and minority interest	(2.0)	0.2	-	3.1	(0.1)	-

	As at 31st December,					
	2006			2005		
	Panyu Golf	Wei Di Si	Lian Chui	Panyu Golf	Wei Di Si	Lian Chui
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Total assets	246.1	8.2	6.5	214.1	7.6	1.8
Net assets	154.4	5.0	0.3	137.7	4.5	0.4
Net assets after minority interest	104.5	3.2	0.2	94.8	2.9	0.2

After completion of the Disposal, the Group will cease to have any interest in any of Panyu Golf, Wei Di Si and Lian Chui. However, the Group will continue to engage in golf leisure business through its subsidiaries in Sanya, the PRC.

### 3. *Consideration and payment terms*

The Consideration for the Disposal shall be RMB20 million (equivalent to approximately HK\$20.5 million).

## LETTER FROM THE BOARD

The Consideration shall be paid by the Purchaser to the Vendor in cash in the following manner:

		Panyu Golf Agreement RMB	Wei Di Si Agreement RMB	Lian Chui Agreement RMB	Total RMB
(i)	deposits will be paid within ten (10) Business Days upon the signing of the respective Disposal Agreement	1,900,000	80,000	20,000	2,000,000
(ii)	further deposits to be paid within ten (10) Business Days of obtaining the requisite PRC governmental and regulatory approvals in relation to the respective Disposal Agreement	15,200,000	640,000	160,000	16,000,000
(iii)	the balances to be paid within fifteen (15) Business Days upon the completion of the registration of change of shareholder from the Vendor to the Purchaser	1,900,000	80,000	20,000	2,000,000
	Total	<u>19,000,000</u>	<u>800,000</u>	<u>200,000</u>	<u>20,000,000</u>

The Consideration was determined after arm's length negotiations with the Purchaser and having taken into account, among other things, the disqualification of Donson remaining as an investor after the expiry of contract period of the existing joint venture agreement for Panyu Golf, the unaudited combined net asset value after minority interest of Panyu Golf, Wei Di Si and Lian Chui of approximately RMB105.1 million (equivalent to approximately HK\$107.9 million) as at 31st December, 2006, and the residual value of assets other than buildings of Panyu Golf. The split of the Consideration among each of the Panyu Golf Agreement, Wei Di Si Agreement and Lian Chui Agreement is determined after considering their relevant sizes and tax implications.

## LETTER FROM THE BOARD

As at the Latest Practicable Date, the Group has a shareholder's loan, which is interest free and unsecured, of approximately RMB13.2 million (equivalent to approximately HK\$13.6 million) advanced to Panyu Golf. In addition, the Group has also provided a guarantee of HK\$8 million in respect of a bank loan of Panyu Golf of RMB7 million (approximately HK\$7.2 million). This advance and guarantee will be settled by the Purchaser or repaid by Panyu Golf out of its future profit entitlements from the Development Project.

The Directors consider that the Consideration is fair and reasonable and the Disposal, taking into account the terms of the Development Project Agreement and the Lease Agreement, is in the interests of the Company and the Shareholders as a whole. The Consideration will be retained as working capital of the Group.

#### 4. *Conditions precedent*

The Disposal is conditional on:

- (i) the Disposal Agreements having been approved by the relevant PRC government authority;
- (ii) Newco A and Newco B having been duly established in the PRC as wholly-owned subsidiaries of the Company to act as a participant in the Development Project and the lessee to the Lease Agreement respectively;
- (iii) approval by the Shareholders (or Independent Shareholders, if required) of the Disposal and all transactions contemplated under the Framework Agreement, including the Disposal Agreements, the Development Project Agreement and the Lease Agreement, at the SGM in compliance with the requirements of the Listing Rules; and
- (iv) approval by 廣州市番禺番發集團公司, the Purchaser's holding company, and the Panyu Municipal Government.

The Vendor shall use all reasonable endeavours to procure the fulfilment of conditions (ii) and (iii) above. The Purchaser shall use all reasonable endeavours to procure the fulfilment of conditions (i) and (iv) above. If any of the conditions (ii), (iii) or (iv) is not fulfilled or waived on or before the Long Stop Date or condition (i) is not fulfilled within 60 days of the parties having confirmed the fulfilment of conditions (iii) and (iv) or if the registration of the change of shareholder is not completed within 30 days of the fulfilment of condition (i), the rights and obligations of the parties under the Disposal Agreements shall lapse and be of no further effect except for antecedent breach and the deposits received by the Vendor shall be returned to the Purchaser without any interest.

## LETTER FROM THE BOARD

### B. The Development Project Agreement

As a further consideration for Donson to enter into the Panyu Golf Agreement, the Purchaser agrees to procure Panyu Golf to enter into the Development Project Agreement within 3 days of completion of the Disposal Agreements for the purpose of developing a parcel of land within the Lotus Hill Golf Resort. The Development Project is a co-operation arrangement and there would not be any legal entities formed between Donson or Newco A and Panyu Golf for the purpose of the Development Project. The principal terms of the Development Project Agreement will be as follows:

1. *Parties*

- (i) Donson or Newco A, a wholly-owned subsidiary of the Company; and
- (ii) Panyu Golf.

2. *Purpose*

The Development Project Agreement sets out the co-operation arrangement between Donson or Newco A and Panyu Golf in relation to the development of a parcel of land with area of approximately 48,000 sq. m. situated within the Lotus Hill Golf Resort. About 60 villas with total saleable floor area of approximately 23,000 sq. m. will initially be constructed thereon. All permits and consents in relation to the development of these 60 villas have been obtained. Construction work is expected to commence in early 2008 and completion is expected in around early 2009. The villas will be offered to the members of the Lotus Hill Golf Resort for lease on a long-term basis.

3. *Capital commitment*

Donson or, as the case may be, Newco A will provide the Loan of not more than RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf, which will be utilised principally to finance the development of the aforesaid villas. The Loan shall be unsecured and will bear interest at the prevailing lending rate as announced by The People's Bank of China from time to time. The provision of the Loan will be funded by the internal resources of the Group. The amount of the Loan is determined based on the estimated construction costs net of the estimated proceeds received or receivable in the form of down payments or deposits from the lessees of the villas to be developed. The Loan will be injected by installments, with the actual timing and amount to be determined by the cash budget, construction and sales plan which may from time to time be approved by the management committee of the Development Project, of which the Group has 2 representatives, based on actual progress of construction and the leasing of the villas. Pursuant to the Development Project Agreement, the maximum capital commitment from the Group will be RMB40 million. In case of any further capital requirement in excess of RMB40 million due to unforeseeable reasons, the capital contribution ratio will be subject to the management committee of the Development Project. Further announcement will be made by the Company as and when appropriate.



## LETTER FROM THE BOARD

Panyu Golf will not be required to make any cash contribution but will contribute the relevant land for the Development Project valued at RMB82 million as at 2nd January, 2008 by RHL Appraisal Ltd., an independent professional valuer. The Directors consider such arrangement to be normal commercial practice for property development co-operation of this type in the PRC. The Directors also consider the terms of the Loan which bear interest at prevailing market lending rate to be normal commercial terms.

#### 4. *Profit sharing arrangements*

Donson or, as the case may be, Newco A and Panyu Golf will be initially entitled to 65% and 35% respectively of the net residual value of the Development Project, which is calculated as the total lease payments receivable from the long-term leases of the villas of the Development Project, net of:

- (i) construction costs of the Development Project;
- (ii) other expenses in relation to the Development Project;
- (iii) all tax charges in relation to the Development Project; and
- (iv) repayment of principal of and interest accrued on the Loan.

The land use right certificates of the Lotus Hill Golf Resort is currently for use as golf facilities only. In case Panyu Golf is able to obtain a change of use of the land use rights certificates regarding the aforesaid villas so that the land use rights of the villas can be transferred, any extra net benefits from such sale (representing additional proceeds from the sale of the villas if the purpose of the land use right certificates can be changed from golf facilities to property development less the cost of obtaining approval of such change) will be shared by Donson or, as the case may be, Newco A and Panyu Golf in the proportion of 40% and 60% respectively. This additional profit sharing, if any, is an extra benefit to the Group. Panyu Golf will be the party primarily undertaking the task of obtaining the aforesaid land use right certificates. The Directors consider the sharing ratio, though different from the initial profit sharing ratio, serves as an incentive measure for and reflects the efforts of Panyu Golf on obtaining the land use right certificates for the villas and is fair and reasonable.

#### 5. *Management of the Development Project*

A management committee for the Development Project will be established which shall comprise 4 persons, with each party having the right to appoint 2 persons. All essential financial and operating policies of the Development Project are to be decided by the management committee, normally by a majority vote in a management committee meeting. Neither the Group nor Panyu Golf shall have unilateral control over the composition of the management committee or the voting rights at any management committee meeting.

## LETTER FROM THE BOARD

### 6. *Guarantee*

番禺旅游 will guarantee the due observance and performance by Panyu Golf of all the obligations, commitments and undertakings on the part of Panyu Golf contained in the Development Project Agreement.

### 7. *Other opportunities*

If there are any future projects within the Lotus Hill Golf Resort, Donson or, as the case may be, Newco A will have the first right to participate in such new projects on the same initial profit sharing basis as the Development Project Agreement.

The Development Project Agreement is conditional on the completion of the Disposal Agreements and the entering into of the Lease Agreement. Accordingly, the provision of the Loan pursuant to the Development Project Agreement is also subject to the conditions precedent of the Disposal Agreements.

## C. **The Lease Agreement**

With a view to enabling the Group to continue its interest in the business of the Lotus Hill Golf Resort and generate recurring revenue, Donson or Newco B and Panyu Golf shall, upon completion of the Disposal, enter into the Lease Agreement on the following terms:

### 1. *Parties*

Lessee: Donson or Newco B, a wholly-owned subsidiary of the Company; and

Lessor: Panyu Golf.

### 2. *Subject premises*

The golf course and club-house facilities within the Lotus Hill Golf Resort.

### 3. *Lease period*

3 years from the date of the Lease Agreement, which is renewable at the option of the lessee for successive terms of 3 years each up to a maximum of 20 years subject to a 10% increment in lease payment every 3 years. The Company shall comply with applicable Listing Rules requirements on renewal of the lease period after the expiry of the initial 3-year lease term.

## LETTER FROM THE BOARD

### 4. *Lease payment*

Annual rent is RMB5 million (equivalent to approximately HK\$5.1 million) payable on a monthly averaged basis (i.e. approximately RMB416,667 or HK\$427,789 per month).

### 5. *Deposit*

An amount of RMB1,500,000 (equivalent to approximately HK\$1,540,000) will be paid within five (5) days upon signing of the Lease Agreement, but will be refunded to the lessee if the Lease Agreement is expired or terminated without default on the part of the lessee.

The entering into of the Lease Agreement is conditional on completion of the Disposal Agreements and the signing of the Development Project Agreement.

As advised by the Company's PRC Legal Advisers, according to the relevant laws in the PRC, there is no restriction on Newco B as a foreign-owned enterprise to become the lessee of the golf course. In addition, although Newco B is restricted from operating golf course pursuant to 外商投資產業指導目錄(2007年修訂), the Company's PRC Legal Advisers further advised that Newco B is allowed to sub-let the golf course to a third party with the consent of Panyu Golf. In light of the above advices, the Group intends to sub-let the golf course at the Lotus Hill Golf Resort to an independent third party which is a domestic enterprise in the PRC and such party shall be responsible for the operations of the golf course. Newco B will continue to operate the other facilities at the Lotus Hill Golf Resort which includes hotel, club house, restaurants, retail outlets and other recreational facilities. The Company's PRC Legal Advisers advised that the above arrangement does not violate the applicable rules in the PRC.

The Purchaser agreed, upon Completion, to procure Panyu Golf to give consent for Newco B to sub-let the golf course. The Group is also in the final stage of discussion with an independent third party for entering into a provisional subletting agreement for the subletting of the golf course of the Lotus Hill Golf Resort for an initial term of 3 years at an annual rental in the range of RMB4 million (equivalent to approximately HK\$4.1 million) to RMB5 million (equivalent to approximately HK\$5.1 million) which shall be conditional upon signing of the Lease Agreement. As a condition to the proposed provisional subletting agreement, the sub-lessee shall undertake to employ all the existing front-line staff of the golf operations while Newco B agrees to provide managerial advice to the sub-lessor in respect of the management of the golf operations so as to ensure a smooth transition. Under the proposed sub-letting arrangement, the sub-lessee shall receive membership fees from members of the golf course and other fees and charges from the golfers for utilizing facilities and services on the golf course while Newco B shall generate revenue from the operation of the other facilities at the Lotus Hill Golf Resort and the sub-letting of the golf course. Newco B shall incur lease payment under the Lease Agreement and other operating costs such as staff salary, utilities and other running costs incidental to the operation of the other facilities at the Lotus Hill Golf

## LETTER FROM THE BOARD

Resort. The Board considers that there would be net profit arising from the Lease Agreement because the annual lease payment to Panyu Golf under the Lease Agreement is substantially covered by the annual lease income under the subletting agreement. Also, the Company will retain the operations of the other facilities at the Lotus Hill Golf Resort which include restaurants and other recreation facilities which will continue to provide source of income for the Group. As disclosed in the sub-paragraph headed "Interests to be disposed of by Donson" under the section headed "The Disposal Agreements" above, the profit after taxation and minority interest of Panyu Golf shared by the Group for the year ended 31st December, 2005 was approximately HK\$3.1 million and the loss after taxation and minority interest of Panyu Golf shared by the Group for the year ended 31st December, 2006 was approximately HK\$2.0 million. Since the annual rental in the range of RMB4 million (equivalent to approximately HK\$4.1 million) to RMB5 million (equivalent to approximately HK\$5.1 million) of the proposed provisional sub-letting agreement was negotiated in arm's length with reference to the past performance of the golf operations of the Lotus Hill Golf Resort, it shall secure a stable source of revenue to the Group, which will be subject to less business fluctuation.

For the purpose of Chapter 14A of the Listing Rules, the annual lease payment payable by the Group under the Lease Agreement shall be capped at RMB5 million (equivalent to approximately HK\$5.1 million) for each of the three financial years ending 31st March, 2009, 2010 and 2011. The cap is determined with reference to the annual lease payment under the Lease Agreement. As Panyu Golf is currently the owner and operator of the Lotus Hill Golf Resort, the annual lease payment of RMB5 million under the Lease Agreement is determined based on arm's length negotiations between the parties with reference to the past turnover of Panyu Golf and after considering the current economic conditions in Panyu and the business potential of the Lotus Hill Golf Resort.

### **D. Letter of Intent**

The Group will enter into a non-binding letter of intent with Panyu Golf upon Completion in relation to the proposed formation of a new joint venture to develop and operate a new hotel within the Lotus Hill Golf Resort subject to requisite consents and approvals from the relevant government authorities having been obtained. The Company will provide the Shareholders with further information of this proposed joint venture in accordance with the Listing Rules should any binding agreement be entered into.

### **REASONS FOR THE FRAMEWORK AGREEMENT**

Panyu Golf is a joint venture between Donson and 番禺旅游 which contract period should have expired on 17th September, 2007. Pursuant to 外商投資產業指導目錄(2007年修訂) as jointly announced by the National Development and Reform Commission and Ministry of Commerce of the PRC on 7th November, 2007, foreign investors, including Hong Kong investors, are prohibited to develop and operate golf course(s) in the PRC unless relevant permits have been granted prior to 1st December, 2007. Upon expiry of the contract period, Panyu Golf is required to be wound up by a committee to be formed by Panyu Golf in accordance with its articles of association. As the joint venture partners consider that winding up may not be in their best interests, the parties have agreed to temporarily extend the joint venture contract period by 6 months to 17th March, 2008 to facilitate negotiations between the parties of a re-arrangement of the joint ventures. Given

## LETTER FROM THE BOARD

that Donson can no longer remain as a foreign investor in Panyu Golf, after arm's length negotiations, the parties entered into the Framework Agreement on 28th November, 2007 to set out the framework for the new arrangements involving the Disposal, the new co-operation arrangement for the Development Project and the lease as described above.

Assuming Completion took place on 30th September, 2007 at which time an impairment loss of HK\$45 million has already been provided on certain assets of Panyu Golf, the aggregate financial effects before any expenses of the Disposal is expected to result in a loss of approximately HK\$22.5 million (which is calculated with reference to (i) the unaudited net asset value of Panyu Golf, Wei Di Si and Lian Chui of approximately HK\$43.0 million as at 30th September, 2007; and (ii) the aggregate cash consideration of RMB20 million (approximately HK\$20.5 million) under the Disposal Agreements). Such loss, however, may be reduced by the possible share of residual value of the Development Project as a deferred consideration in accordance with the Framework Agreement. Based on the current development plan of the Development Project and the expected lease payments receivable from the long-term leases of the villas to be developed in the Development Project, the Directors estimate that the 65% share of residual value attributable to the Group would amount to over HK\$20 million. Shareholders should note that the actual overall financial effects of the Disposal and the Development Project are to be determined with reference to the carrying value of the net assets value to be set out in the completion accounts of Panyu Golf, Wei Di Si and Lian Chui, the actual total construction costs to be incurred and the proceeds received and receivable from the villas concerned upon completion of the Development Project. Despite such loss, the Directors decided to proceed with the Disposal as under the terms of the existing joint venture agreement for Panyu Golf, other than the Framework Agreement, there is no other means of restructuring available to the Group, and winding up of Panyu Golf is the only consequence in the absence of the transactions contemplated under the Framework Agreement. In evaluating the merits of the new arrangements, the Board has considered the following factors:

1. in accordance with the existing joint venture agreement of Panyu Golf, if a winding-up takes place, all the buildings including club house of Panyu Golf will be surrendered to 番禺旅游 at no consideration while the remaining assets, after discharging all liabilities including but not limited to taxes, are to be distributed to Donson and 番禺旅游 in the proportion of 65% and 35% respectively. Based on the unaudited accounts of Panyu Golf, before considering the value of land use right of properties within the Lotus Hill Golf Resort, the buildings of Panyu Golf amounted to approximately HK\$100 million, representing approximately 41% and 65% of the total assets and net assets value of Panyu Golf respectively as at 31st December, 2006; and the residual net assets attributable to 65% interest of Donson amounted to approximately HK\$39 million. Based on the unaudited management accounts of Panyu Golf as at 30th September, 2007, before considering the value of land use right of properties within the Lotus Hill Golf Resort, the buildings of Panyu Golf amounted to approximately HK\$97.1 million. After taking into account of (i) the estimated realisable value of the other non-current assets of Panyu Golf, Wei Di Si and Lian Chui; and (ii) the estimated expenses for winding up Panyu Golf, Wei Di Si and Lian Chui and disposal of the land use rights of the properties with the Lotus Hill Golf Resort, there is no positive estimated residual value attributable to the 65% interest in Donson. As it is probable that minimal residual value would be attributable to Donson's 65% interest, the Board considers that the winding-up of Panyu Golf in such manner may not be in the best interest of the Company and the Shareholders;

## LETTER FROM THE BOARD

2. if Panyu Golf were to be wound up, its licence to operate golf club and right to develop properties within the Lotus Hill Golf Resort will be forgone. Without the licence, the value of the existing properties within the Lotus Hill Golf Resort may drastically deteriorate and its net realisable value is subject to significant uncertainties, as there is at present stringent control over the grant of new golf operator licence in the PRC. It would therefore be impracticable to attach any fair value to the properties of Panyu Golf based on its existing use. In addition, the Group will cease to enjoy any potential benefits from the future development of properties within the Lotus Hill Golf Resort;
3. upon completion of the Disposal Agreements, 番禺旅游 and its associates will ultimately hold the entire beneficial interest in Panyu Golf and Lian Chui and more than 99% beneficial interest in Wei Di Si. Under the new arrangements, although Donson no longer has ownership interest in the properties within the Lotus Hill Golf Resort and a loss will be recorded by the Group as a result of the Disposal, the Directors consider the new arrangements a practicable alternative, as Donson is able to secure its entitlements to the economic benefits to be generated from the future development and operations of the Lotus Hill Golf Resort through the Development Project Agreement, the Lease Agreement and the proposed sub-letting arrangement of the golf course at the same percentage as the existing joint venture arrangement;
4. the Group is required to provide the Loan to Panyu Golf for the Development Project. The Directors consider the arrangement commercially justified, as funding from Donson as a joint venture partner would also be required if Panyu Golf were to continue in existence and develop the villas. The Loan shall bear interest at the lending rate as announced by The People's Bank of China from time to time and is repayable before the sharing of any residual value in the Development Project, which terms are considered to be fair and reasonable by the Directors. In addition, the Group will have the first right to participate in future projects within the Lotus Hill Golf Resort including the new hotel;
5. the Group is entitled to appoint 2 persons, representing 50% of the total number of members, to the management committee for the Development Project and hence has significant participation in the formulation of strategy and operation of the Development Project including full access to information on, among other things, the development plan, estimated construction cost and marketing plan of the Development Project;
6. through the Lease Agreement and the proposed sub-letting agreement of the golf course, the operation of the Lotus Hill Golf Resort is expected to generate stable revenue to the Group (which refers to service charges receivable from users of the hotel and club house's facilities at Lotus Hill Golf Resort and the aforesaid rental income). The Directors believe the operations of the Lotus Hill Golf Resort would benefit from new developments, which the Group has a first right to participate under the Development Project Agreement, as it would attract more visitors as well as golfers and further improve the utilisation rate of the facilities within the Lotus Hill Golf Resort to generate more revenue;

## LETTER FROM THE BOARD

7. the continuous participation in the Lotus Hill Golf Resort through the Lease Agreement is expected to bring synergies to the Group's other golf and leisure businesses in Sanya, the PRC; and
8. the new arrangements would enable the Group to maintain a partnership with 番禺旅游 and its associates. Given the background of 番禺旅游 and its associates, the Directors consider that the continuous relationship with them would be beneficial to the Group's business development in the PRC particularly in golf and leisure related business. In addition, in light of the requirement for further extension of the contract term of Panyu Golf, it is impracticable for Donson to dispose of its interest in Panyu Golf to a party other than 番禺旅游 and its associates.

The Company has sought legal advice from its PRC Legal Advisers on the legal implications of the transactions under the Framework Agreement and the proposed sub-letting of the golf course, which is summarised below:

1. according to the relevant PRC laws, the parties to a sino-foreign cooperation arrangement are allowed to determine and agree among themselves the terms and form of the investment for the co-operation as well as the sharing of profits and losses and return on investment in the co-operation arrangement. Accordingly, Donson or Newco A is allowed to invest in the co-operation arrangement under the Development Project Agreement by way of the provision of the Loan;
2. according to the relevant PRC laws, there is no restriction on Newco B as a foreign-owned enterprise to become the lessee of the golf course and other facilities pursuant to the Lease Agreement; and
3. although Newco B is restricted from operating golf course pursuant to 外商投資產業指導目錄(2007年修訂), Newco B is allowed to sub-let the golf course with the consent of Panyu Golf to a third party and such third party, being a domestic enterprise established in the PRC, is allowed to operate and generate revenue from the golf course.

In the event that the above arrangements cannot be implemented due to the fact that Newco A or Newco B is not duly established in the PRC for any reasons not foreseeable at the Latest Practicable Date, the condition (ii) referred to in the sub-paragraph headed "Conditions precedent" under the section headed "The Disposal Agreements" cannot be fulfilled and the Framework Agreement shall lapse and Panyu Golf will be wound up. In view of the merits of the new arrangements as described above, the Directors consider it in the interests of the Company and the Shareholders as a whole to proceed with the Framework Agreement, subject to the due establishment of Newco A and Newco B where necessary. The Company has already submitted application(s) to the relevant governmental authorities for the incorporation of Newco B (which shall be provisionally named as Guangzhou Donson Hotel Management Limited (廣州市東迅酒店管理有限公司)) and will use its best endeavours to procure fulfillment of condition (ii) referred to the sub-paragraph headed "Conditions precedent" under the section headed "The Disposal Agreements" above.

## LETTER FROM THE BOARD

In view of the above, the Board considers that the entering into of the Framework Agreement (including the Disposal Agreements, the Development Project Agreement, the Lease Agreement and the respective transactions contemplated thereunder) is in the interests of the Company and the Shareholders as a whole and that the terms of the Framework Agreement, the Disposal Agreements, the Development Project Agreement and the Lease Agreement are fair and reasonable.

### **FINANCIAL EFFECTS OF THE DISPOSAL AGREEMENTS AND THE DEVELOPMENT PROJECT AGREEMENT**

#### **Earnings**

Upon Completion, the Group will cease to have any equity interests in Panyu Golf, Wei Di Si and Lian Chui and cease to consolidate their results into the accounts of the Group. Assuming Completion takes place on 30th September, 2007, the aggregate financial effects before any expenses of the Disposal is expected to result in a loss of approximately HK\$22.5 million (which is calculated with reference to (i) the unaudited net asset value of Panyu Golf, Wei Di Si and Lian Chui of approximately HK\$43 million as at 30th September, 2007 after an impairment loss of HK\$45 million; and (ii) the aggregate cash consideration of RMB20 million (approximately HK\$20.5 million) under the Disposal Agreements). Such loss, however, may be reduced by the possible share of residual value of the Development Project as a deferred consideration in accordance with the Framework Agreement.

Based on the current development plan of the Development Project and the expected lease payments receivable from the long-term leases of the villas to be developed in the Development Project, the Directors estimate that the 65% share of residual value attributable to the Group would amount to over HK\$20 million. However, the actual overall financial effects of the Disposal and the Development Project are to be determined with reference to the carrying value of the net asset value to be set out in the completion accounts of Panyu Golf, Wei Di Si and Lian Chui, the actual total construction costs to be incurred and the proceeds received and receivable from the villas concerned upon completion of the Development Project.

#### **Assets and liabilities**

Upon Completion, both the assets and liabilities of the Group will decrease. There will be an increase in the cash position of the Group by approximately RMB20 million (approximately HK\$20.5 million) representing the cash inflow of the Consideration.

However, the Group will make cash contribution in the form of loan to the Development Project. As the actual timing and amount are to be determined with reference to the actual progress of construction and the leasing of the villas, there will be no impact on the cash position of the Group immediately after the completion of the Development Project Agreement. The provision of the Loan itself will not have any immediate impact on the assets and liabilities of the Group.



## LETTER FROM THE BOARD

### Gearing

The gearing ratio of the Group is expected to decrease slightly because after the Completion, the debts of Panyu Golf, Wei Di Si and Lian Chui will no longer be consolidated by the Company.

### SUPPLEMENTAL DEED

Under the Everight Agreement in relation to the acquisition of 55.57% indirect interest in Donson by New Smarten dated 2nd February, 2006, the vendors thereof (being Magnum Company Limited, Concord Link Development Limited, Green Label Investments Limited and Mr. Ku Yuet Kan, Tony) had given undertakings in favour of New Smarten for certain performance of the Donson Group, which are guaranteed by Mr. Lai and Mr. Chan. New Smarten and, among others, Mr. Lai and Mr. Chan have entered into the Supplemental Deed, which will be effective upon Completion, to vary such undertakings in light of the Disposal. Details of the variations are as follows:

<b>Existing undertakings</b>	<b>Proposed amendment</b>	<b>Reason</b>
Donson Group will achieve profit before tax and minority interest of not less than HK\$50 million ("Guaranteed Profit") for the 27-month period from 1st January, 2006 to 31st March, 2008	To defer the 27-month period to commence from 1st January, 2008 and ending on 31st March, 2010. For the avoidance of doubt, the calculation of Guaranteed Profit shall include the loss arising from the transactions under the Framework Agreement regardless of whether the transactions thereunder are completed before 1st January, 2008 or not	It is the Group's decision to revise the business plan of the hotel and leisure development in Sanya, Hainan, one of the principal operations of Donson Group, so as to enlarge the project size and maximise the benefits to the Group. As the aforesaid business plan of the hotel and leisure development has originally been agreed between the Group and the vendors at the time of the Everight Agreement, the amendments to the undertakings are proposed by the Group as an incentive to the vendors to agree on the revised business plan suggested by the Group. It is highly probable that the developable area can be increased to approximately 80,000 m <sup>2</sup> from the initial plan of 29,000 m <sup>2</sup>

## LETTER FROM THE BOARD

Existing undertakings	Proposed amendment	Reason
<p>The vendors shall have no further liability under any warranties and undertakings contained in the Everight Agreement if the consolidated profits before tax and minority interests of Donson Group for the three years commencing from 1st April, 2006 and ending on 31st March, 2009 in aggregate exceeds HK\$200 million (“Profit for Guarantee Release”) or net consolidated cash inflow from operating and investing activities but before financing activities of Donson for the aforesaid period in aggregate exceeds HK\$300 million (“Cash Inflow for Guarantee Release”)</p>	<p>To defer the 3-year period to commence from 1st April, 2007 and ending on 31st March, 2010</p>	<p>Same as above</p>

Except for the above proposed amendments, all the undertakings of the vendors under the Everight Agreement remain effective which include:

1. Villas and apartments having saleable area not less than 40,000 m<sup>2</sup> and 30,000 m<sup>2</sup> respectively can lawfully be erected within the Lotus Hill Golf Resort for sale and all relevant PRC governmental consents and approvals for the construction thereof will be obtained within four years after completion of the Everight Acquisition.

As at the Latest Practicable Date, all relevant PRC governmental consents and approvals for construction have been obtained for the construction of villas of about 23,000 m<sup>2</sup>. If there is no more development within the Lotus Hill Golf Resort available to the Group before 7th June, 2010 pursuant to its first right to participate under the Development Project Agreement, the compensation payable by the vendors under the Everight Agreement calculated in accordance with the conditions of the Everight Agreement is approximately HK\$22.4 million, which is covered by convertible notes issued by the Company and the cash deposit of HK\$26.7 million placed in escrow.

2. The maximum liability of those vendors, except for Mr. Ku Yuet Kan, Tony, which are beneficially held by Mr. Lai and Mr. Chan in respect of all claims for breach of the warranties and undertakings contained in the Everight Agreement shall not exceed the sum of HK\$60 million.

## LETTER FROM THE BOARD

As the above amendments only relate to deferral of the period for the designated performance of Donson Group but do not involve any relaxation of the obligations of the vendors or surrender of rights in monetary terms by the Group, the Directors do not consider the amendments under the Supplemental Deed to be material which would otherwise affect the previous approval of the Everight Agreement obtained from the Shareholders in May 2006. For the avoidance of doubt, it is explicitly agreed that the loss from the transactions contemplated under the Framework Agreement will be indemnified by those vendors beneficially held by Mr. Lai and Mr. Chan in accordance with the Everight Agreement unless:

1. the Guaranteed Profit is not less than HK\$50 million; or
2. Donson Group can achieve either the Profit for Guarantee Release or the Cash Inflow for Guarantee Release.

The consideration for the Everight Acquisition was HK\$140 million. The achievement of any one of the Guaranteed Profit, the Profit for Guarantee Release or the Cash Inflow for Guarantee Release by Donson Group is considered a fair and reasonable return to the Group from the Everight Acquisition. The Board (including the independent non-executive Directors with Mr. Lai abstaining from voting) considers that the entering into the Supplemental Deed (including the transactions contemplated thereunder) is in the interests of the Company and the Shareholders as a whole and that the terms of the Supplemental Deed are fair and reasonable.

### SGM

The Disposal constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. By virtue of the fact that 番禺旅游 and the Purchaser are under common control, Panyu Golf is a connected person under Rule 14A.11(4) of the Listing Rules and all the agreements under the Framework Agreement are inter-conditional with each other, the Disposal and the provision of the Loan also constitute connected transactions for the Company under Chapter 14A of the Listing Rules which are subject to approval of the Independent Shareholders. The transaction contemplated under the Lease Agreement constitutes a continuing connected transaction for the Company under the Listing Rules. As each of the percentage ratios (other than the profits ratio) on an annual basis is less than 2.5%, the transaction is only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempt from the Independent Shareholders' approval requirement.

番禺旅游, the Purchaser, Panyu Golf and their associates are connected persons with a material interest in the transaction. They are required to abstain from voting on the resolution in relation to the Disposal Agreements and the Development Project Agreement including the provision of the Loan. As at the Latest Practicable Date, 番禺旅游, the Purchaser and Panyu Golf did not have any shareholding interests in the Company.

## LETTER FROM THE BOARD

An Independent Board Committee has been constituted by the Company to advise the Independent Shareholders, and First Shanghai has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders, as regards to the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan.

Set out on pages 58 and 59 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 Monday, 4th February, 2008 at 11:00 a.m., at which an ordinary resolution will be proposed and, if consider appropriate, passed to approve the Disposal Agreements and the Development Project Agreement (including the provision of the Loan) and the transactions contemplated thereunder.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor 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

In accordance with Chapter 14A of the Listing Rules, the Disposal Agreements and the Development Project Agreement (including the provision of the Loan) and the transactions contemplated thereunder are subject to the approval by the Independent Shareholders by way of poll at the SGM.

Pursuant to bye-law 66 of the bye-laws of the Company, a resolution put to vote at a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules 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 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

## LETTER FROM THE BOARD

- (e) if required by the Listing Rules, 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.

The results of the poll at the SGM will be published by way of an announcement on the websites of the Company and of the Stock Exchange following the SGM in accordance with the requirements of the Listing Rules.

### RECOMMENDATION

The Directors consider that the terms and conditions of the Disposal Agreements and the Development Project Agreement are fair and reasonable and the entering into of the Disposal Agreements and the Development Project Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Disposal Agreements and the Development Project Agreement (including the provision of the Loan) and the transactions contemplated thereunder.

Your attention is drawn to the recommendation of the Independent Board Committee (as set out on page 28 of this circular) and the advice of First Shanghai (as set out on pages 29 to 44 of this circular) regarding the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers that the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal Agreements and the Development Project Agreement (including the provision of the Loan) and the transactions contemplated thereunder.

### FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from First Shanghai, the general information set out in the appendix to this circular and the notice convening the SGM.

Yours faithfully,  
For and on behalf of the Board  
**ITC Properties Group Limited**  
**Cheung Hon Kit**  
*Chairman*

# LETTER FROM THE INDEPENDENT BOARD COMMITTEE



德祥地產集團有限公司\*

**ITC PROPERTIES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code : 199)**

17th January, 2008

*To the Independent Shareholders*

Dear Sir or Madam,

## CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 17th January, 2008 (the "Circular"), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan and to advise you as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the entering into of the Disposal Agreements and the Development Project Agreement including the provision of the Loan is in the interests of the Company and the Shareholders as a whole.

First Shanghai has been appointed as the independent financial adviser to advise us and you regarding the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are contained in its letter set out on pages 29 to 44 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having considered the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan and the independent advice of First Shanghai, we consider that the terms of the Disposal Agreements and the Development Project Agreement including the provision of the Loan are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the entering into of the Disposal Agreements and the Development Project Agreement including the provision of the Loan is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Disposal Agreements and the Development Project Agreement (including the provision of the Loan) and the transactions contemplated thereunder.

Yours faithfully,

*Independent Board Committee*

**Wong Chi Keung, Alvin**

*Independent*

*Non-executive Director*

**Kwok Ka Lap, Alva**

*Independent*

*Non-executive Director*

**Chui Sai Cheong**

*Independent*

*Non-executive Director\**

\* For identification purpose only

# LETTER OF ADVICE FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Disposal Agreements and the Development Project Agreement for inclusion in this circular.



**FIRST SHANGHAI CAPITAL LIMITED**  
19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

17 January 2008

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs or Madams,

## **DISCLOSEABLE AND CONNECTED TRANSACTIONS**

### **INTRODUCTION**

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders on the terms of the Disposal Agreements and the Development Project Agreement and the respective transactions contemplated thereunder, details of which are set out in the circular of the Company dated 17 January 2008 (the "Circular") to the Shareholders, of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

As disclosed in the announcement of the Company dated 7 December 2007, on 28 November 2007, the Group entered into, among others, (i) the Disposal Agreements in relation to the disposal of the Group's interest in Panyu Golf, Wei Di Si and Lian Chui (the "Panyu Golf Companies"), PRC joint ventures jointly owned by Donson (an indirect wholly-owned subsidiary of the Company) and 番禺旅游 (a state-owned enterprise), to the Purchaser (a state-owned enterprise); and (ii) the Framework Agreement with the Purchaser and 番禺旅游, pursuant to which the Purchaser and 番禺旅游 will within 3 days after Completion procure Panyu Golf to enter into the Development Project Agreement with Donson or Newco A to jointly develop a parcel of land within the Lotus Hill Golf Resort where the Group will provide the Loan of not more than RMB40 million (equivalent to approximately HK\$41.1 million) for the Development Project.

## LETTER OF ADVICE FROM FIRST SHANGHAI

Since 番禺旅游 and the Purchaser are under common control, Panyu Golf is a connected person of the Company under Rule 14A.11(4) of the Listing Rules. Given all agreements under the Framework Agreement are inter-conditional with each other, the Disposal and the provision of the Loan under the Development Project Agreement therefore constitute connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to, among others, the approval of the Independent Shareholders by way of poll at the SGM.

The Independent Board Committee, comprising the independent non-executive Directors, namely, Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Chui Sai Cheong, has been established to advise the Independent Shareholders on the terms of the Disposal Agreements and the Development Project Agreement and the respective transactions contemplated thereunder. We, First Shanghai Capital Limited, have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in this regard.

In putting forth our opinion and recommendations, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors and the Company, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Directors and the Company were true at the time they were made and continued to be true as at the date hereof and up to the date of the SGM. We have also relied on the valuation report of the relevant portion of the land for the Development Project issued by RHL Appraisal Ltd., an independent professional valuer. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Company and have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice and have taken the reasonable steps as required under Rule 13.80 of the Listing Rules in forming our opinion. We have sought confirmation from the Directors that no material facts or information have been omitted from the information supplied and/or opinions expressed. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Company nor have we conducted any form of investigation into the business, affairs or future prospects of the Group.



# LETTER OF ADVICE FROM FIRST SHANGHAI

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations as to the fairness and reasonableness of the terms of the Disposal Agreements and the Development Project Agreement, we have taken into account the following principal factors and reasons:

### 1. Background to and reasons for the Disposal Agreements and the Development Project Agreement

#### (i) Background

The Group is principally engaged in (i) property development and investment in Macau, the PRC and Hong Kong; (ii) golf resort and leisure operations in the PRC; (iii) securities investment; (iv) trading of motorcycles; and (v) loan financing services.

On 15 May 1992, Donson entered into a cooperation agreement with 番禺旅游 to establish three joint ventures, namely, Panyu Golf, Wei Di Si and Lian Chui, in view to jointly operate the Lotus Hill Golf Resort for a term of 15 years. The golf resort comprises a golf course and a club-house equipped with resort facilities including guest rooms, food and beverage outlets, fitness centre and sauna.

As disclosed in the announcement of the Company dated 7 February 2006, on 2 February 2006, the Group entered into an acquisition agreement with the then beneficial owners of Everight in relation to the acquisitions (the "First Acquisitions") of (i) the entire issued share capital of Everight; and (ii) the then shareholders' loan of the Everight Group at an aggregate consideration of HK\$140 million. Everight held 63.03% interest in Smart Sharp Investment Limited, which in turns held 88.17% interest in Donson. Everight was effectively interested in 55.57% of the entire issued share capital of Donson.

As disclosed in the announcement of the Company dated 5 January 2007, on even date, Everight entered into various agreements in relation to the acquisitions (the "Second Acquisitions") of (i) the entire issued share capital of Braniff Developments Limited which owned all remaining minority interests in Smart Sharp Investment Limited; (ii) the remaining minority interests in Donson; and (iii) the loan owing by Braniff Developments Limited to its then controlling shareholders at an aggregate consideration of approximately HK\$114 million. Upon completion of the Second Acquisitions, Donson had become an indirect wholly-owned subsidiary of the Company. As mentioned in the annual report of the Company for the year ended 31 March 2007 (the "2007 Annual Report"), the First Acquisitions and the Second Acquisitions were completed in June 2006 and February 2007 respectively.

## LETTER OF ADVICE FROM FIRST SHANGHAI

As at 30 September 2007, the Group had effective interests of 65%, 64.83% and 65% on Panyu Golf, Wei Di Si and Lian Chui respectively, while 番禺旅游 owned the remaining 35% interests in Panyu Golf and Lian Chui; and 34.91% interest in Wei Di Si respectively.

Donson is an investment holding company, which operates two golf resorts in the PRC, being the Lotus Hill Golf Resort in Panyu, Guangdong and a golf resort in Yalong Bay, Sanya, Hainan. In addition, Donson also held interests in the property development company and the property management company for the Lotus Hill Golf Resort, namely Wei Di Si and Lian Chui respectively. Within the Lotus Hill Golf Resort, 86 units of villas and 76 units of apartments constructed as phase I development had been sold; while 9 units of villas remain unsold are subject to long-term lease. Currently, all permits and consents in relation to the development of about 60 villas with total saleable floor area of approximately 23,000 sq. m. has been obtained.

With reference to the 2007 Annual Report, sales generated from golf resort and hotel business of the Group amounted to approximately HK\$52.4 million, represented about 5.9% of the total turnover of the Group for the year ended 31 March 2007. Based on the interim report (the "2007 Interim Report") of the Company for the six months ended 30 September 2007, sales generated from golf resort and hotel business of the Group amounted to approximately HK\$25.0 million which represented about 6.9% of the total turnover of the Group for the six months ended 30 September 2007; while the segment result of the golf resort and hotel business of the Group recorded a segmental loss of approximately HK\$10.7 million for the six months ended 30 September 2007.

### *(ii) Reasons*

Pursuant to 外商投資產業指導目錄 (2007年修訂) as jointly announced by the National Development and Reform Commission and Ministry of Commerce of the PRC on 7 November 2007, foreign investors including Hong Kong investors are prohibited to develop and operate golf course(s) in the PRC unless relevant permits have been granted prior to 1 December 2007. Panyu Golf is joint venture between Donson and 番禺旅游 with a term of 15 years and should have expired in September 2007. Pursuant to the articles of association of Panyu Golf, Panyu Golf is required to be wound up by a committee to be formed by Panyu Golf upon expiry of the contract period. As set out in the "Letter from the Board" of the Circular, the joint venture partners consider that it is not in their best interests to wind up the Panyu Golf Companies and, therefore had agreed to temporarily extend the joint venture contract period by 6 months to facilitate the negotiations of the re-arrangement

## LETTER OF ADVICE FROM FIRST SHANGHAI

of the joint ventures. On 28 November 2007, Donson entered into, among others, the Disposal Agreements and the Framework Agreement with 番禺旅游 and the Purchaser in relation to, among others:

- (a) the disposal of Donson's entire interests in Panyu Golf, Wei Di Si and Lian Chui to the Purchaser at an aggregate cash consideration of RMB20 million (equivalent to approximately HK\$20.5 million);
- (b) 番禺旅游 and the Purchaser will procure Panyu Golf to enter into the Development Project Agreement and the Lease Agreement with Donson or Newco A and Newco B respectively within 3 days after Completion for:
  - 1. the co-operation of the Development Project between Panyu Golf and Donson or, as the case may be, Newco A, where the Group will provide the Loan of not more than RMB40 million (equivalent to approximately HK\$41.1 million) to Panyu Golf to finance the development of villas; and Panyu Golf will contribute the relevant portion of the land which is valued at RMB82 million (equivalent to approximately HK\$84.2 million), and Donson or, as the case may be, Newco A and Panyu Golf will share the net residual value of the Development Project on a 65:35 basis; and
  - 2. the lease back of the Lotus Hill Golf Resort for three years commencing from the date of the Lease Agreement at an annual rental of RMB5 million (equivalent to approximately HK\$5.1 million) renewable at the option of the Group at successive term of 3 years up to 20 years.

With the new regulations announced by the PRC authorities, the Group is prohibited to develop and operate golf course in the PRC unless relevant permits have been obtained. Based on the above, we are of the view that enterings into of the Disposal Agreements and the Development Project Agreement provide an opportunity for the Group to continue its entitlement on the economic benefits to be generated from the future development of the properties within the Lotus Hill Golf Resort through the Development Project Agreement. In addition, if Panyu Golf were to be wound up, its licence to operate golf club and right to develop properties within the Lotus Hill Golf Resort will be forgone and the Group will not be able to enjoy any potential benefits from the Development Project.

# LETTER OF ADVICE FROM FIRST SHANGHAI

## 2. The Disposal Agreements

### (i) *Business and financial results of Panyu Golf, Wei Di Si and Lian Chui*

#### (a) *Business*

Panyu Golf, Wei Di Si and Lian Chui are the group of companies involved in the development, management and operation of the Lotus Hill Golf Resort.

Panyu Golf owns the Lotus Hill Golf Resort, which comprises a golf course, a club-house equipped with facilities, 9 residential units which are currently leased out under long-term leases and a parcel of vacant land, which has already been approved by relevant government authorities for development of about 60 villas with total saleable floor area of approximately 23,000 sq. m..

Wei Di Si is engaged in property development and was the developer of a property project comprising over 70 apartment units within the Lotus Hill Golf Resort, all of which were sold out prior to the completion of the First Acquisitions in June 2006.

Lian Chui is engaged in property management which manages portfolio including the residential properties within the Lotus Hill Golf Resort.

#### (b) *Financial results*

We set out in the following the key unaudited financial information of Panyu Golf, Wei Di Si and Lian Chui for the two years ended 31 December 2006 prepared in accordance to HK GAAP:

	For the year ended 31 December					
	2006			2005		
	Panyu Golf <i>HK\$'000</i>	Wei Di Si <i>HK\$'000</i>	Lian Chui <i>HK\$'000</i>	Panyu Golf <i>HK\$'000</i>	Wei Di Si <i>HK\$'000</i>	Lian Chui <i>HK\$'000</i>
Turnover	38,695.8	3,500.9	1,717.4	44,491.8	3,622.3	1,406.3
Gross profit	27,636.2	405.2	1,717.4	35,689.7	(337.5)	1,406.3
Profit/(loss) before taxation	(4,756.5)	354.5	(41.2)	2,473.5	(217.0)	101.3
Profit/(loss) after taxation and minority interest	(1,993.5)	229.9	(26.8)	3,172.9	(140.7)	16.3
Gross profit margin	71.4%	11.6%	100%	80.2%	N/A	100%

# LETTER OF ADVICE FROM FIRST SHANGHAI

	As at 31 December					
	2006			2005		
	Panyu Golf	Wei Di Si	Lian Chui	Panyu Golf	Wei Di Si	Lian Chui
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	246,102.3	8,222.7	6,480.5	214,174.5	7,610.3	1,757.3
Net assets	154,379.7	5,006.7	362.0	137,728.8	4,488.9	388.4
Net assets after minority interest	104,450.4	3,246.3	217.1	94,766.7	2,910.6	237.7

### *Panyu Golf*

Based on the unaudited results of Panyu Golf for the two years ended 31 December 2006, the turnover of Panyu Golf decreased by approximately HK\$5.8 million or 13.0% from approximately HK\$44.5 million for the year ended 31 December 2005 to approximately HK\$38.7 million for the year ended 31 December 2006. Based on our discussion with the management of the Group, such decrease was mainly due to the decrease in the sales proceeds from the transferring of the titles of villas to the tenants under long-term leases (the "Title Premium") and the decrease in golfing income of Panyu Golf for the year ended 31 December 2006. The decrease in the gross profit margin of Panyu Golf for the year ended 31 December 2006 was the result of the decrease in revenue generated from the Title Premium which was of higher margin.

Both profit before and after taxation and minority interest of Panyu Golf for the year ended 31 December 2005 dropped significantly to record loss before and after taxation and minority interest for the year ended 31 December 2006. We understand from the management of the Group that it was mainly due to the combined effect on decrease in turnover, gross profit margin and other revenue during the year ended 31 December 2006. The decrease in other revenue of Panyu Golf for the year ended 31 December 2006 was due to a one-off adjustment on the written back of bad debts provisions and stock loss of Panyu Golf recorded during the year ended 31 December 2005.

As to the increases in total assets and net assets of Panyu Golf as at 31 December 2006, we understand from the management of the Group that it was mainly due to the appreciation in RMB, the tax indemnity which arised pursuant to the terms of the First Acquisitions, and the increase in fair value of land during the year.

## LETTER OF ADVICE FROM FIRST SHANGHAI

### *Wei Di Si*

Based on the unaudited results of Wei Di Si for the two years ended 31 December 2006, the turnover of Wei Di Si decreased slightly by approximately HK\$0.1 million to approximately HK\$3.5 million for the year ended 31 December 2006. Based on our discussion with the management of the Group, such decrease was due to decrease in the sales of properties within the Lotus Hill Golf Resort, and the increase in gross profit was mainly due to the improved market condition which led to increased sales price.

Both loss before taxation and after taxation and minority interest of Wei Di Si for the year ended 31 December 2005 have improved to profit before taxation and after taxation and minority interest for the year ended 31 December 2006. As advised by the management of the Group, as a result of the tighten cost control implemented by Wei Di Si during the year ended 31 December 2006 and the shareholder's loan waived which was recorded as other revenue for the year ended 31 December 2005, there were decreases in administrative expenses and other revenue of Wei Di Si during the year ended 31 December 2006. However, the principal reason for the improvement in the financial result of Wei Di Si during the year ended 31 December 2006 was the increase in gross profit of Wei Di Si, which was the result of the improved property market.

Increase in total assets and net assets of Wei Di Si as at 31 December 2006 was mainly attributable to the increased profit generated during the year which was the result of the increased sales of properties within the Lotus Hill Golf Resort.

### *Lian Chui*

Based on the unaudited results for Lian Chui for the two years ended 31 December 2006, the turnover of Lian Chui increased by approximately HK\$0.3 million to approximately HK\$1.7 million for the year ended 31 December 2006 which was mainly due to the additional residential site managed by Lian Chui at the end of 2005. As a result of the increase in salaries and other expenses during the year ended 31 December 2006, Lian Chui recorded a loss before and after taxation and minority interest for the year ended 31 December 2006 as compared to a profit before and after taxation and minority interest for the year ended 31 December 2005.

## LETTER OF ADVICE FROM FIRST SHANGHAI

The increase in the total assets of Lian Chui during the year ended 31 December 2006 of approximately HK\$4.7 million was mainly due to the cash received from its customers for a residential site maintenance fund, as this amount of cash was offset by the increase in payables of Lian Chui, its effect on the net assets of Lian Chui was not significant.

### *(ii) Evaluation of Consideration*

As disclosed in the "Letter from the Board" of the Circular, the Consideration of RMB20 million (equivalent to approximately HK\$20.5 million) was determined after arm's length negotiations with the Purchaser and having taken into account, among others, (i) the disqualification of Donson as an investor after the expiry of the term of the existing joint venture agreement for Panyu Golf; (ii) the unaudited combined net asset value after minority interest of Panyu Golf Companies; and (iii) the residual value of net assets other than buildings of Panyu Golf.

#### *(a) Comparison of Consideration with residual value*

The following is the calculation of the estimated net residual value of the Panyu Golf Companies:

	<i>HK\$'000</i>
Unaudited combined net asset value of the Panyu Golf Companies as at 30 September 2007	98,827
<i>Less:</i> All buildings of Panyu Golf	<u>(97,130)</u>
Residual value before provision for the recoverability of other non-current assets of the Panyu Golf Companies; and expenses for winding up the Panyu Golf Companies and the disposal of the land use rights of the properties within the Lotus Hill Golf Resort	1,697
<i>Less:</i> Provision for the recoverability of other non-current assets of the Panyu Golf Companies; and expenses for winding up the Panyu Golf Companies and the disposal of the land use rights of the properties within the Lotus Hill Golf Resort	<u>&gt;1,697</u>
<b>Net residual value</b>	<u><u>0</u></u>

## LETTER OF ADVICE FROM FIRST SHANGHAI

As set out in the 2007 Interim Report, in view of the disqualification of the Group to continue to be an investor in Panyu Golf and after assessing the recoverability of the assets of Panyu Golf, the Group has charged an impairment loss on prepaid lease payments of leasehold land and premium on prepaid lease payments of leasehold land of Panyu Golf of approximately HK\$45 million on the condensed consolidated income statement of the Group for the six months ended 30 September 2007. Accordingly, based on the unaudited management accounts of the Panyu Golf Companies as at 30 September 2007, the unaudited net asset value of the Panyu Golf Companies amounted to approximately HK\$98.8 million.

Pursuant to the joint venture agreement of Panyu Golf, if Panyu Golf is required to be wound up, all the buildings including club house of Panyu Golf will be surrendered to 番禺旅游 at no consideration, while the remaining assets, after discharging all liabilities including but not limited to taxes, are to be distributed to Donson and 番禺旅游 in the proportion of 65% and 35% respectively. Based on the unaudited management accounts of Panyu Golf as at 30 September 2007, before considering the value of land use right of properties within the Lotus Hill Golf Resort, the buildings of Panyu Golf amounted to approximately HK\$97.1 million.

As showed in the table above, after excluding all the buildings of Panyu Golf and taken into account the estimated realisable value of the other non-current assets of the Panyu Golf Companies; and the estimated expenses for winding up the Panyu Golf Companies and disposal of the land use rights of the properties with the Lotus Hill Golf Resort, the estimated net residual value attributable to the Group's interest in Donson will be minimal.

We have discussed with the management of the Group the basis in arriving at the estimated net residual value; and noted that (i) the other non-current assets of the Panyu Golf Companies are principally plant and machinery, equipment, furniture and fixtures, motor vehicles and utensils; and (ii) the estimated expenses for winding up the Panyu Golf Companies and disposal of the land use rights of the properties within the Lotus Hill Golf Resort are in line with the relevant policies, rules and regulations.

As discussed with the management of the Group, we understand that in the event that the Panyu Golf Companies were required to be wound up, (i) 番禺旅游 will also have to bear the estimated expense for winding up the Panyu Golf Companies; (ii) 番禺旅游 may not be able to retain its interest in the land use rights of the properties within the Lotus Hill Golf Resort which are subject to public bidding; and (iii) the



## LETTER OF ADVICE FROM FIRST SHANGHAI

license to operate golf club within the Lotus Hill Golf Resort will be forgone. Accordingly, as set out in the “Letter from the Board” of the Circular, the joint venture partners consider that it is not in their best interests to wind up the Panyu Golf Companies and have arrived at the Consideration after arm’s length negotiations with the Group.

As demonstrated above, the residual value to be entitled by the Group if the Panyu Golf Companies were required to be wound up will be minimal. As such, it is in the interest of the Company and the Shareholders as a whole to dispose of the Group’s interest in the Panyu Golf Companies at the Consideration of RMB 20 million (equivalent to approximately HK\$20.5 million).

*(b) Shareholder’s loan*

As disclosed in the “Letter from the Board” of the Circular, the Group has advanced an interest free and unsecured shareholder’s loan amounted to approximately RMB13.2 million (equivalent to approximately HK\$13.6 million) to Panyu Golf; and provided a guarantee of HK\$8 million in respect of a bank loan of Panyu Golf of RMB7 million (equivalent to approximately HK\$7.2 million).

As set out in the Framework Agreement, the shareholder’s loan will be repaid by Panyu Golf and the guarantee will be settled or released by the Purchaser or Panyu Golf out of its future profit entitlements from the Development Project. Based on our discussion with the management of the Group, having considered the Development Project is expected to be completed in 2009 and the track record of the other villas within the Lotus Hill Golf Resort, the Directors are optimistic on the future performance of the Development Project and are confident on the repayment of the shareholder’s loan and the release of the guarantee.

Having considered that (i) the disqualification of the Group to continue to be an investor in Panyu Golf; (ii) there will be minimal estimated net residual value attributable to the Group if the Panyu Golf Companies were required to be wound up; (iii) the entering into of the Disposal Agreements provides an opportunity for the Group to participate in the Development Project which the Directors expect to be profitable; and (iv) the shareholder’s loan advanced to Panyu Golf will be repaid and the guarantee will be settled or released by the Purchaser or Panyu Golf out of its future profit entitlements from the Development Project, we consider the terms of the Disposal Agreements are fair and reasonable and the entering into of the Disposal Agreements is in the interest of the Company and its Shareholders as a whole.

### **3. The Development Project Agreement**

As disclosed in the "Letter from the Board" of the Circular, as a further consideration for Donson to enter into the Panyu Golf Agreement, the Purchaser agrees to procure Panyu Golf to enter into the Development Project Agreement within 3 days of completion of the Disposal Agreements. The Development Project Agreement sets out the co-operation arrangement between Donson or, as the case may be, Newco A, a wholly-owned subsidiary to be set up by the Group, and Panyu Golf in relation to the development of a parcel of land with area of approximately 48,000 sq. m. situated within the Lotus Hill Golf Resort which is expected to be developed into about 60 villas with total saleable floor area of approximately 23,000 sq. m.. It is expected that construction work of the villas will commence in early 2008 and is expected to be completed in around early 2009. The villas will be offered to the members of the Lotus Hill Golf Resort for long-term lease.

#### *(i) Capital commitment*

Pursuant to the terms of the Development Project Agreement, the Group will provide an unsecured loan of not more than RMB40 million (equivalent to approximately HK\$41.1 million) to finance the Development Project. The Loan will bear interest at the prevailing lending rate for unsecured loan from time to time as announced by The People's Bank of China. The amount of the Loan is determined based on the estimated construction costs net of the estimated proceeds received or receivable in the form of down payments or deposits from the lessees of the villas to be developed. The Loan is expected to be injected by installments based on actual progress of construction and the leasing of the villas and are subject to the monitor of the management committee of the Development Project.

The Loan has no fixed repayment term. The principal of and interest accrued on the Loan will be repaid to the Group before sharing of any profit from the Development Project. Pursuant to the terms of the Development Project Agreement, 番禺旅游 will guarantee the due performance of Panyu Golf including but not limited to the obligation in relation to the Loan and Panyu Golf will undertake not to create any encumbrances over the relevant parcel of land. Based on the above, despite the principal of and interest accrued on the Loan will be repaid before sharing of any profit from the Development Project, given repayment of the Loan is entirely based on the future performance of the Development Project which are not guaranteed, we are of the review that the recoverability of the Loan is uncertain. Nevertheless, pursuant to the terms of the Development Project Agreement, in the event that the Development Project were required to be wound up, the Loan will be repaid after discharging the salaries, employee insurance and other tax payable from the net residual value of the Development Project.

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Panyu Golf will contribute the relevant portion of the land for the Development Project which was valued at RMB82 million (equivalent to approximately HK\$84.2 million) as at 2 January 2008 as appraised by RHL Appraisal Ltd., an independent professional valuer, without making any cash contribution. As set out in the "Letter from the Board" of the Circular, the Directors consider such arrangement to be normal commercial practice for property development co-operation of this type in the PRC and the terms of the Loan which bear interest at prevailing market lending rate are normal commercial terms. After reviewing the articles of associations of the Group's golf investment in Sanya, the PRC, we noted that the co-operation structure with the relevant local government is similar to the arrangement under the Development Project.

Having considered the contribution from the Group and Panyu Golf to the Development Project amounting to RMB40 million (being the Loan) and RMB82 million (being the cost of the land) respectively, representing a ratio of 33:67, and the Group and Panyu Golf will share the net residual value of the Development Project on a 65:35 basis, we consider the capital commitment arrangement under the Development Project is on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### *(ii) Profit sharing*

The Group and Panyu Golf will share the net residual value of the Development Project on a 65:35 basis, which is the Group's current shareholding interest in Panyu Golf.

If Panyu Golf is able to obtain a change of the land use rights of the villas under the Development Project so that the land use rights of the villas become transferable, any extra net benefits from such sale (representing additional proceeds from the sale of the villas less the cost of obtaining such approval) will be shared by the Group and Panyu Golf on a 40:60 basis. As set out in the "Letter from the Board" of the Circular, the Directors consider that such additional share of profit attributable to the Development Project is extra benefit to the Group and is an incentive for Panyu Golf to change the land use right of the villas. In addition, in the opinion of the Board, without the assistance from the shareholders of Panyu Golf, i.e. the Purchaser and 番禺旅游 which are state-owned enterprises, the probability of obtaining the change of the land use rights of the villas under the Development Project is very remote.

### *(iii) Management of the Development Project*

Pursuant to the terms of the Development Project Agreement, a management committee for the Development Project will be established which shall comprise four members, of which each party will appoint two members.

## LETTER OF ADVICE FROM FIRST SHANGHAI

All essential financial and operating policies of the Development Project are to be decided by the management committee, normally by a majority vote in a management committee meeting. Neither the Group nor Panyu Golf shall have unilateral control over the composition of the management committee or the voting rights at any management committee meeting.

### *(iv) Other terms*

Pursuant to the Development Project Agreement, if there are any future projects within the Lotus Hill Golf Resort, the Group will have the first right to participate in such new projects on the same initial profit sharing basis as the Development Project Agreement, i.e. 65:35 basis.

Having considered that (i) Panyu Golf will contribute the relevant portion of the land, which was valued at RMB82 million (equivalent to approximately HK\$84.2 million); (ii) the due performance of Panyu Golf including but not limited to the obligation in relation to the Loan is guaranteed by a state-owned enterprise, 番禺旅游, and with a negative pledge on the land; (iii) the Group is entitled to 65% of the net residual value of the Development Project which is equivalent to the Group's current interest in Panyu Golf; (iv) the profit sharing ratio of the Development Project as compared to the contribution to the Development Project by the Group and Panyu Golf is favourable to the Group; and (v) the Group has the priority to participate in any future projects within the Lotus Hill Golf Resort, we are of the view that the terms of the Development Project Agreement are fair and reasonable and entering into of the Development Project Agreement is in the interest of the Company and the Shareholders as a whole.

#### **4. Financial effects of the Disposal and entering into the Development Project Agreement**

##### *(i) Earnings*

Upon Completion, Panyu Golf, Wei Di Si and Lian Chui will cease to be non wholly-owned subsidiaries of the Group and their respective results will cease to be consolidated into the accounts of the Group. As set out in the "Letter from the Board" of the Circular, assuming Completion had taken place on 30 September 2007 (being the date of the latest published financial information of the Company), the Group is expected to recognise a loss on Disposal of approximately HK\$22.5 million, (being the difference between (i) the unaudited net asset value attributable to the Group's interests in Panyu Golf, Wei Di Si and Lian Chui of approximately HK\$43.0 million as at 30 September 2007 after an impairment loss of HK\$45 million had been provided; and (ii) the aggregate cash Consideration of RMB20 million (equivalent to approximately HK\$20.5 million). However, such loss is incidental to the Disposal and is not expected to have any material impact on the future earnings of the Group.

## LETTER OF ADVICE FROM FIRST SHANGHAI

As to the Development Project, the Group is entitled to 65% of the net residual value of the Development Project which is expected to have positive effect on the earnings of the Group.

### *(ii) Net asset*

Upon Completion, the assets and liabilities of Panyu Golf, Wei Di Si and Lian Chui will also cease to be consolidated into the accounts of the Group. Accordingly, the assets and liabilities of the Group will decrease; while the cash position of the Group will increase by the Consideration of approximately RMB20 million (equivalent to approximately HK\$20.5 million). Based on the net assets of the Group of approximately HK\$1,877.6 million as at 30 September 2007 as shown in the 2007 Interim Report, the aggregate unaudited net asset value attributable to the Group's interests in Panyu Golf, Wei Di Si and Lian Chui as at 30 September 2007 of approximately HK\$43.0 million only account for approximately 2.3% of the net assets of the Group. Accordingly, the Disposal is not expected to have material effect on the net assets of the Group.

Pursuant to the Development Project Agreement, the Group would finance the Development Project in form of the Loan. The Loan of RMB40 million (equivalent to approximately HK\$41.1 million) which represents only approximately 2.2% of the net assets of the Group as at 30 September 2007 will be funded by internal resources of the Group. Since the actual timing and amount of the Loan to be provided for the Development Project are subject to the actual progress of construction and the leasing of the villas, it is expected that the provision of the Loan under the Development Project Agreement would not have immediate impact on the assets and liabilities, including cash position, of the Group; and would not induce immediate pressure to the cash flow of the Group.

### *(iii) Gearing*

Based on the 2007 Interim Report, the Group's net gearing ratio as at 30 September 2007 was approximately 0.68, as represented by the Group's net debt of approximately HK\$1,283.3 million which is the total borrowings of the Group, including both external borrowing and the debt components of the convertible note, minus the cash and cash equivalent of the Group as a percentage to Group's shareholders' fund of approximately HK\$1,877.6 million. Assuming Completion had taken place on 30 September 2007 and the Loan had not yet been granted for the Development Project as at 30 September 2007, the gearing ratio of the Group would improve.

## LETTER OF ADVICE FROM FIRST SHANGHAI

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Disposal Agreements and the Development Project Agreement, which includes the provision of the Loan, are fair and reasonable. Accordingly, we consider the enterings into of the Disposal Agreements and the Development Project Agreement are in the interests of the Company and its Shareholders as a whole. We therefore advise, and recommend that the Independent Board Committee to advise, the Independent Shareholders to vote for the ordinary resolution in respect of approving the Disposal Agreements and the Development Project Agreement and the respective transactions contemplated thereunder at the SGM.

Yours faithfully,

For and on behalf of

**First Shanghai Capital Limited**

**Helen Zee**

*Managing Director*

**Fanny Lee**

*Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors or chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and/or their associates in the shares, underlying shares 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 Issuers (the "Model Code") adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Director	Long position/ Short position	Capacity	Number of issued Shares	Number of underlying Shares (under equity derivatives of the Company)	Aggregate interest	Approximate percentage of the issued share capital of the Company (%)
Mr. Cheung Hon Kit ("Mr. Cheung")	Long position	Beneficial owner	10,000,000	-	10,000,000	0.32
Mr. Lai Tsan Tung, David ("Mr. Lai")	Long position	Interest of controlled corporation	-	39,718,584 (Note)	39,718,584	1.28

*Note:* Mr. Lai, an executive Director, was interested in the 39,718,584 underlying Shares of HK\$17,476,177 zero coupon convertible notes due 2010 issued by the Company on 8th June, 2006 at the initial conversion price of HK\$0.44 per Share held by Green Label Investments Limited ("Green Label") by virtue of his beneficial interest in the entire issued share capital of Green Label.

*(ii) Interests in the share options of the Company*

Name of Director	Date of grant	Option period	Exercise price per share HK\$	Number of share options	Approximate percentage of the issued share capital of the Company (%)
Mr. Cheung	15th August, 2006	15th August, 2006 – 14th August, 2008	0.50	10,000,000	0.32
	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	12,000,000	0.39
				22,000,000	0.71
Mr. Chan Fut Yan ("Mr. Chan")	15th August, 2006	15th August, 2006 – 14th August, 2008	0.50	6,000,000	0.19
	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	7,000,000	0.23
				13,000,000	0.42
Mr. Wong Kam Cheong, Stanley	15th August, 2006	15th August, 2006 – 14th August, 2008	0.50	2,000,000	0.06
	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	3,000,000	0.10
				5,000,000	0.16
Mr. Cheung Chi Kit	15th August, 2006	15th August, 2006 – 14th August, 2008	0.50	2,000,000	0.06
	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	5,000,000	0.16
				7,000,000	0.22
Mr. Lai	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	3,000,000	0.10
Mr. Ma Chi Kong, Karl	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	9,000,000	0.29



Name of Director	Date of grant	Option period	Exercise price per share HK\$	Number of share options	Approximate percentage of the issued share capital of the Company (%)
Mr. Wong Chi Keung, Alvin ("Mr. Wong")	15th August, 2006	15th August, 2006 – 14th August, 2008	0.50	1,500,000	0.05
	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	1,500,000	0.05
				3,000,000	0.10
Mr. Kwok Ka Lap, Alva	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	1,500,000	0.50
Mr. Chui Sai Cheong	15th August, 2006	15th August, 2006 – 14th August, 2008	0.50	1,500,000	0.05
	27th July, 2007	27th July, 2007 – 26th July, 2011	0.67	1,500,000	0.05
				3,000,000	0.10

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 or underlying shares 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) Interests of Shareholders discloseable pursuant to the SFO**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, 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:

*(i) Interests in the Shares*

Name of Shareholder	Long position/ Short position	Capacity	Number of issued Shares	Approximate percentage of the issued share capital of the Company (%)
Loyal Concept Limited ("Loyal Concept")	Long position	Beneficial owner	477,517,272 (Note 1)	15.43
Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics")	Long position	Interest of controlled corporation	517,517,272 (Note 1)	16.72
Hanny Holdings Limited ("Hanny")	Long position	Interest of controlled corporation	517,517,272 (Note 1)	16.72
Famex Investment Limited ("Famex")	Long position	Interest of controlled corporations	517,517,272 (Note 1)	16.72
Mankar Assets Limited ("Mankar")	Long position	Interest of controlled corporations	517,517,272 (Note 1)	16.72
ITC Investment Holdings Limited ("ITC Investment")	Long position	Interest of controlled corporations	590,592,272 (Note 1)	19.08
ITC Corporation Limited ("ITC")	Long position	Interest of controlled corporations	716,162,272 (Note 1)	23.14

Name of Shareholder	Long position/ Short position	Capacity	Number of issued Shares	Approximate percentage of the issued share capital of the Company (%)
Dr. Chan Kwok Keung, Charles ("Dr. Chan")	Long position	Interest of controlled corporations	716,162,272 (Note 1)	23.14
	Long position	Beneficial owner	3,810,000 (Note 1)	0.12
			719,972,272	23.26
Ms. Ng Yuen Lan, Macy ("Ms. Ng")	Long position	Interest of spouse	719,972,272 (Note 1)	23.26
Shepherd Investments International, Ltd. ("Shepherd")	Long position	Beneficial owner	96,418,727 (Note 2)	3.11
Stark Master Fund, Ltd. ("Stark Master")	Long position	Beneficial owner	134,978,817	4.36
Stark Investments (Hong Kong) Limited ("Stark HK")	Long position	Investment manager	214,252,725 (Note 2)	6.92
Harmony Investment Fund Limited ("Harmony")	Long position	Beneficial owner	52,135,000	1.68

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

Name of Shareholder	Long position/ Short position	Capacity	Number of underlying Shares (under equity derivatives of the Company)	Approximate percentage of the issued share capital of the Company (%)
Loyal Concept	Long position	Beneficial owner	1,135,714,285 (Note 1)	36.69
Hanny Magnetics	Long position	Interest of controlled corporation	1,135,714,285 (Note 1)	36.69
Hanny	Long position	Interest of controlled corporation	1,135,714,285 (Note 1)	36.69
Famex	Long position	Interest of controlled corporation	1,135,714,285 (Note 1)	36.69
Mankar	Long position	Interest of controlled corporation	1,135,714,285 (Note 1)	36.69
ITC Investment	Long position	Interest of controlled corporations	1,178,571,427 (Note 1)	38.07
ITC	Long position	Interest of controlled corporations	1,178,571,427 (Note 1)	38.07
Dr. Chan	Long position	Interest of controlled corporations	1,178,571,427 (Note 1)	38.07
Ms. Ng	Long position	Interest of spouse	1,178,571,427 (Note 1)	38.07
Shepherd	Long position	Beneficial owner	200,016,234 (Note 2)	6.46

Name of Shareholder	Long position/ Short position	Capacity	Number of underlying Shares (under equity derivatives of the Company)	Approximate percentage of the issued share capital of the Company (%)
Stark Master	Long position	Beneficial owner	264,594,155	8.55
Stark HK	Long position	Investment manager	391,623,375 (Note 2)	12.65
Gandhara Master Fund Limited	Long position	Investment manager	334,285,715	10.80
Harmony	Long position	Beneficial owner	114,285,714	3.69

*Notes:*

- As at the Latest Practicable Date, Hanny and Hanny Magnetics were taken to have an interest in 517,517,272 Shares (in which 477,517,272 Shares were held by Loyal Concept and 40,000,000 Shares were held by Cyber Generation Limited ("Cyber")); and 1,135,714,285 underlying Shares (in respect of a principal amount of HK\$330 million under the 2005 August Note and a principal amount of HK\$270 million under the 2006 June Note) held by Loyal Concept since Loyal Concept and Cyber were wholly-owned subsidiaries of Hanny Magnetics which, in turn, was a wholly-owned subsidiary of Hanny, the issued shares of which are listed on the Stock Exchange. Famex, a wholly-owned subsidiary of Mankar, was the controlling shareholder of Hanny. Mankar was a wholly-owned subsidiary of ITC Investment, which in turn was a wholly-owned subsidiary of ITC. Famex and Mankar were deemed to be interested in 517,517,272 Shares held by Loyal Concept and Cyber; and 1,135,714,285 underlying Shares (in respect of a principal amount of HK\$330 million under the 2005 August Note and a principal amount of HK\$270 million under the 2006 June Note) held by Loyal Concept. Selective Choice Investments Limited ("Selective"), a wholly-owned subsidiary of ITC Investment, owned 73,075,000 Shares and 42,857,142 underlying Shares (in respect of a principal amount of HK\$30 million under the 2006 June Note). ITC Investment was deemed to be interested in 590,592,272 Shares which were held by Loyal Concept, Cyber and Selective; and 1,135,714,285 underlying Shares held by Loyal Concept and 42,857,142 underlying Shares held by Selective. Great Intelligence Holdings Limited ("Great Intelligence"), a wholly-owned subsidiary of ITC Management Group Limited, which in turn was a wholly-owned subsidiary of ITC. Dr. Chan was the controlling shareholder of ITC. Ms. Ng is the spouse of Dr. Chan. Great Intelligence owned 125,570,000 Shares. ITC was deemed to be interested in 716,162,272 Shares which were held by Loyal Concept, Cyber, Selective and Great Intelligence; and 1,135,714,285 underlying Shares held by Loyal Concept and 42,857,142 underlying Shares held by Selective. Dr. Chan owned 3,810,000 Shares and was deemed to be interested in 716,162,272 Shares which were held by Loyal Concept, Cyber, Selective and Great Intelligence; and 1,135,714,285 underlying Shares held by Loyal Concept

and 42,857,142 underlying Shares held by Selective. Ms. Ng was deemed to be interested in 719,972,272 Shares which were held by Dr. Chan, Loyal Concept, Cyber, Selective and Great Intelligence; and 1,135,714,285 underlying Shares held by Loyal Concept and 42,857,142 underlying Shares held by Selective.

2. As at the Latest Practicable Date, Stark HK was taken to have an interest as an investment manager in 214,252,725 Shares, a principal amount of HK\$95 million under the 2005 August Note and a principal amount of HK\$123 million under the 2006 June Note held by Centar Investments (Asia) Ltd., Shepherd, Stark Asia Master Fund, Ltd. and Stark International.

(iii) *Other members of the Group*

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) 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 members of the Group:

Name of subsidiary	Name of shareholder	Approximate percentage of the existing issued share/ registered capital (%)
廣州番禺蓮花山高爾夫球 度假俱樂部有限公司 (Guangzhou Panyu Lotus Golf & Country Club Co., Ltd.)	廣州市番禺旅游總公司	35
廣州市蓮翠房產物業 管理有限公司 (Guangzhou Lian Chui Property Management Company Limited)	廣州市番禺旅游總公司	35
廣州市番禺偉迪斯高爾夫 房地產有限公司 (Guangzhou Pan Yu Wei Di Si Golf Property Company Limited)	廣州市番禺旅游總公司	34.91
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.)	三亞博后經濟開發有限公司	20

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, no other persons (not being a Director or chief executive of the Company) had, or deemed to have, any interest or short positions in the shares or underlying shares which were 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 members of the Group or held any option in respect of such capital.

**(c) Competing interests**

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
Mr. Cheung	Wing On Travel (Holdings) Limited and its subsidiaries	Property business and hotel operation in Hong Kong and the PRC	As the managing 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
	Orient Holdings Limited	Property investment in Hong Kong	As a director and shareholder

Name of Director	Name of company	Nature of competing business	Nature of interest
Mr. Wong	CNT Group Limited and its subsidiaries	Property investment and development in Hong Kong and the PRC	As 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, who is principally responsible for the Group's operation and business development. Mr. Wong, being an independent non-executive Director, does 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 and Mr. Wong in other companies will not prejudice their capacity as Directors nor compromise the interests of the Group and the Shareholders.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates was 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.

**(d) Other interests**

Save as disclosed above, 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, 2007 (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.

Save as disclosed above, 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 Group.



### 3. 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.

### 4. 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).

### 5. 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 is contained in this circular:

Name	Qualifications
First Shanghai	Licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity as set out in the SFO
PRC Legal Advisers	廣東省司法廳頒發的執業律師
RHL Appraisal Ltd.	Professional valuers

Each of the above experts 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.

As at the Latest Practicable Date, none of the above experts had 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.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interests in any assets which had been, since 31st March, 2007 (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.

**6. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31st March, 2007, being the date to which the latest published audited financial statements of the Group were made up.

**7. 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 the date of the SGM.

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Independent Board Committee dated 17th January, 2008, the text of which is set out in the "Letter from the Independent Board Committee" in this circular;
- (c) the letter of advice from First Shanghai dated 17th January, 2008, the text of which is set out in the "Letter of advice from First Shanghai" in this circular;
- (d) the legal opinion issued by the PRC Legal Advisers on 14th January, 2008;
- (e) the published audited consolidated financial statements of the Company for each of the two years ended 31st March, 2007;
- (f) the letter of consent referred to in the paragraph headed "Experts and consents" of this appendix;
- (g) the Framework Agreement (with draft of the Development Project Agreement and the Lease Agreement annexed) and the Disposal Agreements; and
- (h) the valuation report by RHL Appraisal Ltd. valued at 2nd January, 2008.

**8. MISCELLANEOUS**

- The qualified accountant of the Company is Mr. Cheung Chi Kit. He is a member of The Hong Kong Institute of Certified Public Accountants (*CPA*), The Hong Kong Institute of Chartered Secretaries (*ACS*) and The Institute of Chartered Secretaries and Administrators (*ACIS*).
- The company secretary of the Company is Ms. Yan Ha Hung, Loucia. She holds a master's degree in business administration (*MBA*). She is an Associate Member (Practitioner's Endorsement) of both The Hong Kong Institute of Chartered Secretaries (*ACS*) and The Institute of Chartered Secretaries and Administrators (*ACIS*).

- 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 registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- The English texts of this circular; the notice of the SGM and the accompanying form of proxy prevail over the Chinese texts.

## NOTICE OF THE SGM



德祥地產集團有限公司\*

**ITC PROPERTIES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code : 199)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of ITC Properties Group Limited (the "Company") will be held on Monday, 4th February, 2008 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 resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

**"THAT:**

- (i) (a) the three agreements all dated 28th November, 2007 (the "Disposal Agreements", copies of which have been produced to this meeting and marked "A", "B" and "C" respectively and signed by the chairman of the meeting for the purpose of identification) entered into between Donson (International) Development Limited ("Donson"), an indirect wholly-owned subsidiary of the Company, as vendor and 廣州市番禺協誠實業有限公司 as purchaser (the "Purchaser") in relation to the disposal by Donson of its interests in Guangzhou Panyu Lotus Golf & Country Club Co., Ltd. (廣州番禺蓮花山高爾夫球度假俱樂部有限公司) ("Panyu Golf"), Guangzhou Panyu Wei Di Si Golf Property Company Limited (廣州市番禺偉迪斯高爾夫房地產有限公司) and Guangzhou Lian Chui Property Management Company Limited (廣州市蓮翠房產物業管理有限公司) to the Purchaser for an aggregate cash consideration of RMB20 million; and (b) the co-operation between Panyu Golf and Donson or a wholly-owned subsidiary of the Company to be incorporated in the People's Republic of China to act as a party to the property project involving the development of a parcel of land with a site area of approximately 48,000 sq. m. within the Guangzhou Lotus Hill Golf Resort on the terms of the draft development project agreement (the "Development Project Agreement", a draft of which has been produced to this meeting and marked "D" and initialled by the chairman of the meeting for the purpose of identification) annexed to the framework agreement dated 28th November, 2007 entered into between Donson, the Purchaser and 廣州市番禺旅游總公司; and all the transactions respectively contemplated thereunder (including the provision of the working capital loan to Panyu Golf under the Development Project Agreement) be and are hereby approved; and
- (ii) 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 Disposal Agreements and to do all such acts and things they consider necessary, desirable or expedient for the implementation of the Disposal Agreements and the Development Project Agreement and any of the transactions contemplated thereunder."

Yours faithfully,  
By order of the Board  
**ITC Properties Group Limited**  
**Yan Ha Hung, Loucia**  
*Company Secretary*

Hong Kong, 17th January, 2008

\* For identification purpose only

## NOTICE OF THE SGM

*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.
- (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 registrar and transfer office in Hong Kong, Tricor 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.
- (5) The resolution shall be voted by way of poll. 廣州市番禺旅遊總公司, the Purchaser and their respective associates shall abstain from voting the resolution.

As at the date of this notice, the directors of the Company are as follows:

*Executive Directors:*

Mr. Cheung Hon Kit (*Chairman*)  
Mr. Chan Fut Yan (*Managing Director*)  
Mr. Wong Kam Cheong, Stanley (*Deputy Managing Director*)  
Mr. Cheung Chi Kit  
Mr. Lai Tsan Tung, David  
Mr. Ma Chi Kong, Karl

*Independent non-executive Directors:*

Mr. Wong Chi Keung, Alvin  
Mr. Kwok Ka Lap, Alva  
Mr. Chui Sai Cheong