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

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

**If you have sold or transferred** all your shares in Greater China Holdings Limited, you should at once hand this circular to the purchaser or 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 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.

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**MAJOR TRANSACTION**

**Financial adviser to the Company**



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7 April 2006

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares and the Sale Loan by the Purchaser pursuant to the Formal Agreement
“Board”	the board of Directors
“Company”	Greater China Holdings Limited, a company incorporated in Bermuda, the shares of which are currently listed on and dealt in the Stock Exchange
“Completion”	the completion which is to take place 30 days after the date on which all the conditions of the Formal Agreement shall have been fulfilled and/or waived, or such other date as shall be agreed between the Purchaser and the Seller in writing
“Deposit”	the deposit of RMB12,000,000 (in Hong Kong dollars equivalent of HK\$11,589,600 based on the exchange rate of HK\$96.58: RMB100) paid by the Purchaser to the Seller and the Guarantor upon signing of the MOU
“Directors”	directors of the Company
“Enlarged Group”	the Group has been enlarged by the Acquisition
“Formal Agreement”	the sale and purchase agreement dated 27 February 2006 entered into between the Purchaser, the Seller and the Guarantor in relation to the Acquisition
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Wang Yuhui
“Independent Third Party(ies)”	independent third party(ies) is(are) not a connected person(s) (as defined in the Listing Rules) of the Company and also not connected with the Company and the connected person(s) (as defined in the Listing Rules) of the Company
“JV Company”	太倉中化國際興業石化開發建設有限公司(Taicang Sinochem International Xingye Petrochemical Development Company Limited), a sino-foreign joint venture company incorporated in the PRC
“Keycharm”	Keycharm Investments Limited, a company incorporated in the British Virgin Islands and owned as to 60% by the Seller and as to 40% by the Guarantor

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## DEFINITIONS

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“Keycharm Group”	Keycharm and its subsidiaries
“Land”	a parcel of land located at the southern part of Gang Qu Wei Road, western part of Jing Er Road and northern part of Bei Huan Road, Fuqiao Town, Taicang Port Development Zone, Taicang City, Jiangsu Province, the PRC
“Latest Practicable Date”	4 April 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Major Shareholder”	Keenlead Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Ms. Ma Xiaoling, the Chairman of the Company and the controlling Shareholder holding approximately 42.03% of the existing issued share capital of the Company
“MOU”	the legally binding memorandum of understanding dated 30 August 2005 entered into between the Purchaser, the Seller and the Guarantor in relation to the Acquisition
“PRC”	the People’s Republic of China
“PRC Party”	江蘇省太倉港港口開發建設投資公司 (Jiangsu Taicang Port Development Construction Investment Company Limited), a state-owned enterprise in the PRC, being the minority shareholder holding 14.29% equity interest of the JV Company and an Independent Third Party
“Purchaser”	Profit Capital Limited, a company incorporated in British Virgin Islands with limited liability and wholly owned by the Company
“Sale Loan”	RMB61,200,000 (approximately HK\$58,846,000), being part of the outstanding amount of loan due from Keycharm to the Seller immediately before Completion and representing (on a pro rata basis) 51% of the total shareholders’ loans of the Keycharm Group upon Completion
“Sale Shares”	51 shares of US\$1.00 each of Keycharm, representing 51% of the issued share capital of Keycharm
“Seller”	Mr. Lin Jie
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

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## DEFINITIONS

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“Share(s)”	share(s) of HK\$0.005 each in the share capital of the Company
“Shareholders”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars
“RMB”	Renminbi
“sq.m.”	square metres
“%”	per cent.

*For the purpose of this circular, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1.04: HK\$1.00 unless otherwise stated.*

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## LETTER FROM THE BOARD

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**大中華實業控股有限公司\***  
GREATER CHINA HOLDINGS LIMITED  
*(incorporated in Bermuda with limited liability)*

(Stock code: 431)

*Executive Directors:*

Ms. Ma Xiaoling (*Chairman*)

Mr. Chan Sze Hon

*Independent Non-Executive Directors:*

Mr. Ching Men Ky Carl

Mr. Lin Ruei-min

Mr. Shu Wa Tung Laurence

*Registered Office:*

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Head office and principal place  
of business:*

Room 1301

1 Lyndhurst Tower

1 Lyndhurst Terrace

Central

Hong Kong

7 April 2006

*To the Shareholders,*

Dear Sir or Madam,

### MAJOR TRANSACTION

#### INTRODUCTION

On 1 March 2006, the Company announced that on 27 February 2006, the Purchaser entered into the Formal Agreement with the Seller and the Guarantor pursuant to which the Purchaser agreed to acquire the Sale Shares, representing 51% of the issued share capital of Keycharm, and the Sale Loan from the Seller at an aggregate cash consideration of RMB61,200,001 (approximately HK\$58,846,000).

\* For identification purposes only

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## LETTER FROM THE BOARD

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The Acquisition constitutes a major transaction of the Company under the Listing Rules and must be made conditional on approval by the Shareholders. Pursuant to Rule 14.44 of the Listing Rules, the approval by the Shareholders may be obtained by means of the written approval of the transaction by a shareholder who holds more than 50% of the voting rights of the Company. Given that (i) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (ii) a written approval of the Acquisition on the terms and conditions of the Formal Agreement and the transaction contemplated thereunder has been given by the Major Shareholder and its party acting in concert, namely China Main Investment (H.K.) Company Limited, who hold an aggregate of approximately 53.22% of the existing issued share capital of the Company and the full compliance by the Company of Rule 14.86, a special general meeting of the Shareholders will therefore not be convened for the purpose of approving the Acquisition.

The purpose of this circular is to give you further information on the Formal Agreement and the accountants' report of the Keycharm Group.

### **THE FORMAL AGREEMENT DATED 27 FEBRUARY 2006**

#### **Parties**

- Purchaser: Profit Capital Limited, a company incorporated in British Virgin Islands with limited liability and wholly owned by the Company
- Seller: Mr. Lin Jie, being director and one of the shareholders holding 60% of Keycharm
- Guarantor: Mr. Wang Yuhui, being director and one of the shareholders holding 40% of Keycharm

Both of the Seller and the Guarantor are businessmen and Independent Third Parties.

#### **Assets to be acquired**

- Sale Shares: 51 shares of US\$1.00 each of Keycharm, representing 51% of the issued share capital of Keycharm
- Sale Loan: RMB61,200,000 (approximately HK\$58,846,000), being part of the outstanding amount of loan due from Keycharm to the Seller immediately before Completion and representing (on a pro rata basis) 51% of the total shareholders' loans of the Keycharm Group upon Completion

The principal terms of the Sale Loan are the same as the shareholder's loan due from Keycharm to the Seller which are unsecured, interest free and repayable on demand

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## LETTER FROM THE BOARD

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Based on the unaudited consolidated management accounts of Keycharm Group as at 31 December 2005, the shareholder's loan due to the Seller from Keycharm was RMB42,000,000 (approximately HK\$40,385,000). Pursuant to the Formal Agreement, the Seller shall procure Keycharm to settle the amount due to the PRC Party of RMB30,000,000 (approximately HK\$28,846,000) immediately after the signing of the Formal Agreement. As a result, the shareholders' loan due to the Seller will be RMB72,000,000 (approximately HK\$69,231,000) immediately before Completion and will be RMB10,800,000 (approximately HK\$10,385,000) immediately after Completion

### Consideration

The total consideration of RMB61,200,001 (approximately HK\$58,846,000) for the acquisition of the Sale Shares and the Sale Loan was determined on the basis of the registered capital of the JV Company and also represents a premium of approximately 2.76% over the aggregate of the audited net deficit of Keycharm Group as at 31 December 2005 were approximately RMB3,224,000 (approximately HK\$3,100,000) and the total amount of shareholders' loans of RMB120,000,000 (approximately HK\$115,385,000) as at Completion which amounted to RMB116,776,000 (approximately HK\$112,285,000). As the diminution in the audited net assets of the Keycharm Group when compared with its registered capital is primarily attributable to the administrative expenses incurred in the ordinary course of business of the JV Company, the Board (including all independent non-executive Directors) considers that the terms of the Formal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole are concerned.

Under the Formal Agreement, the consideration for the Sale Shares is RMB1.00 (approximately HK\$0.96) and the consideration for the Sale Loan is RMB61,200,000 (approximately HK\$58,846,000), being part of the outstanding amount of loan due from Keycharm to the Seller upon Completion and representing (on a pro rata basis) 51% of the total shareholders' loans of the Keycharm Group upon Completion. The aggregate consideration for the Sale Shares and the Sale Loan of RMB61,200,001 (approximately HK\$58,846,000) is to be satisfied in the following manners:

- (a) as to RMB12,000,000 (in Hong Kong dollars equivalent of HK\$11,589,600 based on the exchange rate of HK\$96.58: RMB100), being the first instalment, set off against the Deposit.

As the Deposit had been paid to the Seller and the Guarantor in proportion to their shareholdings in Keycharm on 30 August 2005, the Guarantor confirmed that he has returned the amount of RMB4,800,000 (HK\$4,635,840), being 40% of the Deposit, to the Seller as part of the consideration before the date of the Formal Agreement;

- (b) as to RMB30,000,000 (approximately HK\$28,846,000), being the second instalment, payable to Keycharm by the Purchaser for and on behalf of the Seller upon signing of the Formal Agreement.

Pursuant to the Formal Agreement, the Seller shall procure Keycharm to settle the amount due to the PRC Party of RMB30,000,000 (approximately HK\$28,846,000) immediately after the signing of the Formal Agreement; and



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## LETTER FROM THE BOARD

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- (c) as to the remaining balance of RMB19,200,001 (approximately HK\$18,462,000), being the last instalment, payable to the Seller after six months from the date of the Formal Agreement or upon the date of Completion, whichever is later.

The funding of the first instalment of RMB12,000,000 (in Hong Kong dollars equivalent of HK\$11,589,600 based on the exchange rate of HK\$96.58: RMB100) was financed by the internal resources of the Company and the balance of the consideration was and will be funded by the proceeds from the placing of shares of the Company in September 2005 and banking facilities of the Group.

### Conditions

Completion is conditional, amongst other things, on the following conditions:

- (a) all representations, warranties and undertakings given by the Seller pursuant to the Formal Agreement are true and accurate on the date of the Formal Agreement and remain true and accurate upon Completion;
- (b) the Purchaser having obtained a PRC legal opinion acceptable to it and being satisfied in relation to the business, assets, liabilities of the Keycharm Group and the obligations of the Seller entering into the Formal Agreement;
- (c) the Purchaser being satisfied with the results of a due diligence review on the Keycharm Group;
- (d) all third parties' consents requested by the Purchaser, including the consents in relation to the establishment and shareholding of the JV Company from the relevant PRC and Hong Kong governmental departments and regulatory authorities such as business licence from 蘇州市太倉工商行政管理局 (the State of Administration for Industry and Commerce of Taicang City of Suzhou) and relevant transfer documents from 蘇州產權交易所 (the Asset Exchange of Suzhou) having been provided by the Seller to the Purchaser;
- (e) all necessary consents and approval in relation to the Acquisition and the transactions contemplated therein having been obtained by the Purchaser including the consents or approvals from the relevant governmental departments, the Stock Exchange and regulatory authorities and/or other third parties; and
- (f) the Formal Agreement and the transactions contemplated therein having been approved by the Shareholders at the special general meeting of the Company pursuant to the Listing Rules, or if permitted by the Listing Rules, a written approval of the Formal Agreement and the transactions contemplated therein having been given by the majority shareholder(s) in lieu of the special general meeting of the Company.

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## LETTER FROM THE BOARD

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The above conditions may be waived by the Purchaser at its sole absolute discretion. As at the Latest Practicable Date, all the above conditions (except conditions (d) and (f)) have not been fulfilled. At the present moment, the Purchaser has no intention to waive any of the above conditions. If any of the conditions of the Formal Agreement is not fulfilled or waived by the Purchaser on or before six months from the date of the Formal Agreement, i.e. 27 August 2006 or such other date as shall be determined by the Purchaser, the Formal Agreement shall terminate save in respect of any antecedent breach of the Formal Agreement and the Seller shall return the two instalments in an aggregate amount of RMB42,000,000 (approximately HK\$40,385,000) without interest within two business days from the date of the written notice given by the Purchaser.

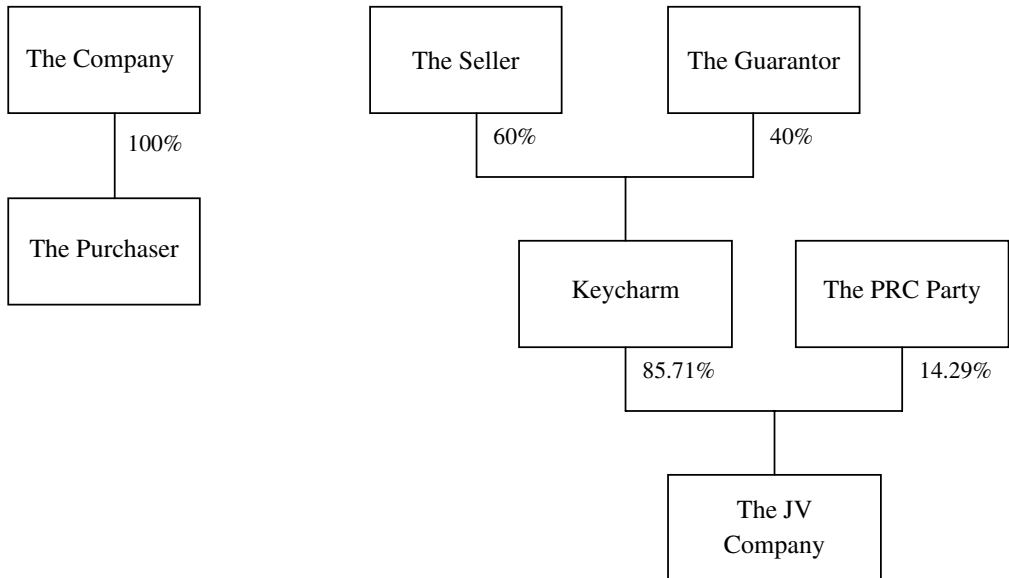
### Completion

Completion shall take place 30 days after the date on which all the conditions of the Formal Agreement have been fulfilled and/or waived, or such other date as shall be agreed between the Purchaser and the Seller in writing.

### SHAREHOLDING STRUCTURE

The diagram below shows the current corporate and shareholding structure of the Group and the Keycharm Group:

#### Before the Acquisition

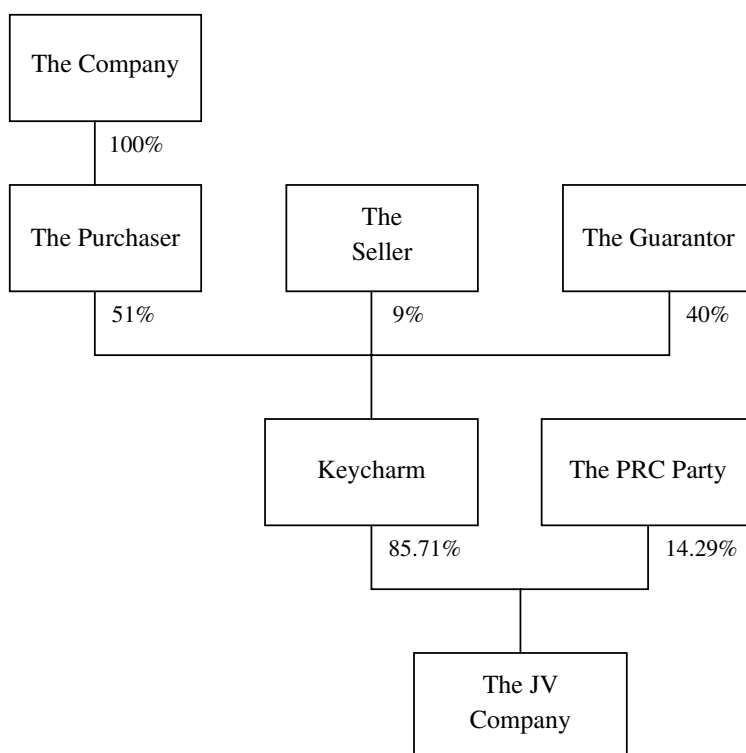


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## LETTER FROM THE BOARD

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### Upon Completion



### INFORMATION OF KEYCHARM AND THE JV COMPANY

Keycharm is a company incorporated in the British Virgin Islands on 8 July 2005. As at the Latest Practicable Date, Keycharm has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 100 shares of Keycharm were issued and allotted and are fully paid or credited as fully paid. As at the Latest Practicable Date, Keycharm is legally and beneficially owned as to 60% by the Seller and as to 40% by the Guarantor. Upon Completion, Keycharm will be owned as to 51% by the Purchaser, as to 9% by the Seller and as to 40% by the Guarantor. The Seller and the Guarantor will retain as directors of Keycharm and Keycharm will become a subsidiary of the Company.

The sole asset of Keycharm is its approximately 85.71% equity interest in the JV Company and the remaining 14.29% equity interest in the JV Company is owned by the PRC Party. To the best knowledge of the Directors, each of the PRC Party and its beneficial owners is an Independent Third Party.

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## LETTER FROM THE BOARD

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The JV Company was incorporated as a PRC domestic company with limited liability on 12 August 2004 and it has become a sino-foreign equity joint venture since 22 August 2005. The operating period of the JV Company is 50 years commencing on 12 August 2004. The registered capital and the total investment amount of the JV Company are RMB140 million (approximately HK\$134,615,000) and RMB240 million (approximately HK\$230,769,000) respectively. It is expected that the difference between the registered capital and the total investment amount of RMB100 million (approximately HK\$96,154,000) will be funded by bank financing of the JV Company. Pursuant to the business license of the JV Company dated 20 November 2005, the scope of business of the JV Company includes construction of port infrastructure, development of petrochemical industry projects and operation and development of transportation related logistic facilities (subject to granting of relevant operating permits). It is the intention of the Directors that the JV Company will be engaged in industrial property development with focus on depot infrastructure. The board of directors of the JV Company currently comprises three directors. It is expected that two new directors will be appointed by the Purchaser to replace two existing directors of the JV Company.

The JV Company currently holds the Land which is situated at the southern part of Gang Qu Wei Road, western part of Jing Er Road and northern part of Bei Huan Road, Fuqiao Town, (Taicang Port), Taicang City, Jiangsu Province, the PRC. The Land is in a rectangular shape and having a site area of approximately 94,793.5 sq.m. and is subject to a right to use the land for a term of 50 years from 1 January 2001 to 31 December 2050 for industry and warehouse composite usage. The land and property interests of the Land are valued by LCH (Asia-Pacific) Surveyors Limited, the independent valuer, at the amount of HK\$27,350,000 as at 10 January 2006. Details of the valuation report of the Land are set out in Appendix IV to this circular.

The Land is planned to be developed into an industrial/storage area with total construction area of 60,000 sq.m. with four depots occupying about 11,250 sq.m. each. The acquisition costs of the Land was approximately RMB28,438,000 (approximately HK\$27,344,000) and the estimated construction costs and professional fees for the property will be approximately RMB65,050,000 (approximately HK\$62,548,000) which will be financed by the registered capital of the JV Company. It is expected that the construction of the property will be completed in early 2007 and commence operation after completion of the construction. It is expected that revenue to be derived from the property is expected to comprise rental income and other income such as logistic services.

### **Financial Review for the period from 8 July 2005 (date of incorporation) to 31 December 2005**

Accountants' report of the Keycharm Group is set out in Appendix I to this circular.

Based on the audited financial statement of the Keycharm Group for the period, Keycharm Group was recorded bank interest income of RMB293,533 (approximately HK\$282,000). For the period, Keycharm Group recorded loss after minority interest before and after taxation of approximately RMB3,224,000 (approximately HK\$3,100,000) which was mainly attributable to the administrative expenses as a result of commencement of the JV Company's operation. The fiscal financial year end of Keycharm Group is 31 December. The net deficit of Keycharm Group as at 31 December 2005 amounted to approximately RMB3,224,000 (approximately HK\$3,100,000). Without taking into account the shareholders' loans amounting to RMB90,000,000 (approximately HK\$86,538,000) as at 31 December 2005, the net assets of Keycharm Group as at 31 December 2005 were approximately RMB86,776,000 (approximately HK\$83,438,000).

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## LETTER FROM THE BOARD

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The total liabilities of Keycharm Group as at 31 December 2005 mainly comprise loans from shareholders' of RMB90,000,000 (approximately HK\$86,538,000), in which RMB48,000,000 (approximately HK\$46,154,000) is due to the Guarantor and RMB42,000,000 (approximately HK\$40,385,000) is due to the Seller, and an amount due to minority shareholder, i.e. the PRC Party of RMB30,000,000 (approximately HK\$28,846,000). Both amounts are unsecured, interest free and repayable on demand.

The gearing ratio of Keycharm Group as at 31 December 2005 was approximately 0.88 (total liabilities of approximately RMB120,323,000 divided by total assets of approximately RMB136,564,000) and there was no interest-bearing bank borrowing as at 31 December 2005.

Keycharm Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were mainly conducted in RMB which was relatively stable throughout the year. Employees are remunerated according to the nature of their jobs and market trend with built-in merit components incorporated in the annual increment to reward and motivate individual performance. Keycharm Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law.

Pursuant to the Formal Agreement, the Seller shall procure Keycharm to settle the amount due to the PRC Party of RMB30,000,000 (approximately HK\$28,846,000) immediately after the signing of the Formal Agreement. As a result, the shareholders' loans due to the Seller and the Guarantor will be RMB72,000,000 (approximately HK\$69,231,000) and RMB48,000,000 (approximately HK\$46,154,000) respectively immediately before Completion and the shareholders' loans due to the Purchaser, the Seller and the Guarantor will be RMB61,200,000 (approximately HK\$58,846,000), representing (on a pro rata basis) 51% of the total shareholders' loans, RMB10,800,000 (approximately HK\$10,385,000) and RMB48,000,000 (approximately HK\$46,154,000) respectively immediately after Completion. Any repayment to the shareholders' loans due to the shareholders of Keycharm will be repaid in proportion to their shareholding of Keycharm.

The total assets of Keycharm Group as at 31 December 2005 mainly comprise non-current assets of RMB46,851,000 (approximately HK\$45,049,000), an amount due from a former shareholder of the JV Company of RMB29,900,000 (approximately HK\$28,750,000), an amount due from a minority shareholder, i.e. the PRC Party of RMB29,900,000 (approximately HK\$28,750,000), prepayments and other receivable of approximately RMB839,000 (approximately HK\$807,000) and bank balance and cash of approximately RMB29,074,000 (approximately HK\$27,956,000). The non-current assets comprise prepayments of approximately RMB7,460,000 (approximately HK\$7,173,000) which represents prepayments paid to various developers in connection with a potential port infrastructure project. In order to ensure the potential port infrastructure project can be legally transferred to the JV Company, the Keycharm Group entered into a contract (the "Contract") with the PRC Party on 8 January 2006, pursuant to which the PRC Party agreed to assist the Keycharm Group in the procurement of the PRC government's granting of the land use rights for the potential port infrastructure project. In the event that the land use rights for the potential port infrastructure project would not be granted by the PRC government before 1 October 2006, the PRC Party would become liable to the costs that the Keycharm Group incurred for the potential port infrastructure project and the prepayments of approximately RMB7,460,000 (approximately HK\$7,173,000) would be fully refunded by the PRC Party to the Keycharm Group. Both receivables due from the former shareholder of the JV Company and the PRC Party are loans to the then shareholders of JV Company in

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## LETTER FROM THE BOARD

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January 2005 and are unsecured, interest free and repayable on demand. It is expected that both former shareholder of the JV Company and the PRC Party will repay the receivables before Completion. In the event that either the former shareholder of the JV Company or the PRC Party could not repay the receivables before Completion, the Purchaser will not be satisfied with the results of the due diligence review on the Keycharm Group as mentioned in condition (c) as set out in the Formal Agreement and the Formal Agreement will not be completed.

To the best knowledge of the Directors, each of the former shareholder of Keycharm and its beneficial owners is an Independent Third Party.

### REASONS FOR THE ACQUISITION

The principal activities of the Group are property investment, investment holding and production and sale of organic fertilizers.

The Directors are of the opinion that the Acquisition is in line with the corporate strategy of the Group which includes property investment and development in the PRC and Hong Kong and provides an opportunity for the Company to broaden its business scope and diversify into industrial property development with focus on deport infrastructure.

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the 2004 annual report, for the year ended 31 December 2004, turnover of the Group amounted to HK\$15,207,000 (31 December 2003: HK\$25,287,000). Net profit for the year was HK\$12,262,000 (31 December 2003: net loss of HK\$107,791,000) and earnings per share was HK\$0.06 (31 December 2003: loss per share of HK\$0.73). During the year, the Group, through its wholly owned subsidiary, completed its acquisition of 51% interest in Lucky Green Limited (“Lucky Green”). The sole asset of Lucky Green is the 100% interest in Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd. which is principally engaged in the production and sale of fertilizers. During the reporting period, revenue from production and sale of fertilizers amounted to HK\$6,420,000 (31 December 2003: Nil), representing approximately 42.2% of the Group’s total revenue. Investment in securities shared approximately 3.6% of the Group’s total revenue. Rental income from 1 Lyndhurst Tower amounted to HK\$8,235,000, representing approximately 54.2% of the Group’s total revenue and over 95% of the total gross floor area was leased out.

As mentioned in the 2005 interim report, for the six months ended 30 June 2005, turnover of the Group amounted to HK\$31,134,000 (30 June 2004: HK\$6,888,000). Net profit for the period was HK\$38,877,000 (30 June 2004: net loss of HK\$1,447,000) and earnings per share was HK16.3 cents (30 June 2004: loss per share of HK0.7 cents). During the reporting period, revenue from production and sales of fertilizers amounted to HK\$2,851,000, representing approximately 9.16% of the Group’s total revenue. Investment in securities shared approximately 74.92% of the Group’s total revenue resulting from the disposal of all the Company’s equity investments listed in Hong Kong. Rental income from 1 Lyndhurst Tower amounted to HK\$4,958,000, representing approximately 15.92% of the Group’s total revenue and over 90% of the total gross floor area was leased out.

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## LETTER FROM THE BOARD

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Following the blossoming of the property market, the revaluation of the investment properties has contributed to a profit of HK\$37,380,000, and the property investment business remains as the largest profit contributor to the Group.

On 15 July 2005, a composite offer document in relation to the mandatory unconditional cash offer (the "Offer") made by Keenlead Holdings Limited ("Keenlead"), a company with limited liabilities incorporated in the British Virgin Islands, which is wholly and beneficially owned by Ms. Ma Xiaoling, was issued jointly by Keenlead and the Company to all shareholders of the Company, excluding parties acting in concert with Keenlead. The Offer was closed on 5 August 2005, and the interests of Keenlead and parties acting in concert with it in the shares of the Company increased to 63.85% immediately after the closing of the Offer and Keenlead assumed management control.

Subsequent to the takeover of management, the Company has been actively exploring new business opportunities consistent with its strategy to be engaged in property investment business.

On 30 August 2005, the Group has entered into the MOU with independent third parties for the Acquisition. On 5 September 2005, the Company has entered into a placing agreement with a placing agent to raise capital for the Group to invest in the project, if the project materializes, while broadening the shareholders' base and the capital base of the Company.

The Board will continue to look for investments with reasonable return by investing in quality properties projects in Hong Kong or the PRC, and the Board continues to commit to achieve this objective and is optimistic of its success.

### **Financial Review for the year ended 31 December 2004**

#### *Liquidity and Financial Resources*

In April 2004, the Company placed 39,700,000 Shares at HK\$0.2898 per Share and the net proceeds received were approximately of HK\$11,000,000 which was applied as general working capital of the Group.

The Group has a current ratio of approximately 0.16 as at 31 December 2004 (as at 31 December 2003: 0.42) and the gearing ratio was 1.01 as at 31 December 2004 (as at 31 December 2003: 1.40). The calculation of gearing ratio was based on the total borrowings of HK\$134,026,000 which would be due within one year (31 December 2003: HK\$142,453,000) and the net assets of HK\$133,062,000 as at 31 December 2004 (31 December 2003: HK\$101,648,000).

There were no significant capital commitments as at 31 December 2004 which would require a substantial use of the Group's present cash resources or external funding.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and RMB.

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## LETTER FROM THE BOARD

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### *Charge on Assets*

As at 31 December 2004, all the Group's investment properties and the issued shares of China Faith Limited, a wholly owned subsidiary of the Company are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan of HK\$127,750,000 (as at 31 December 2003: HK\$138,300,000) granted to the Group.

Other investments of HK\$19,166,000 (31 December 2003: HK\$14,695,000) are pledged against margin loan facilities granted to the Group.

Property, plant and equipment of HK\$6,795,000 (31 December 2003: Nil) are pledged against a bank loan granted to the Group.

### *Contingent Liabilities*

The Group did not have any material contingent liabilities as at 31 December 2004.

### *Employees and Remuneration Policies*

As at 31 December 2004, the Group has 24 employees. Remuneration is determined by reference to their qualifications and experience of the staff concerned. Besides salary payments, other staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme.

## **Financial Review for the six months ended 30 June 2005**

### *Liquidity and Financial Resources*

As at 30 June 2005, the Group has a current ratio of approximately 0.10 compared to that of 0.16 as at 31 December 2004 and the gearing ratio was 0.77 compared to that of 1.01 as at 31 December 2004. The calculation of gearing ratio was based on the total borrowings of HK\$131,991,000, which were due within one year, and the net assets of HK\$172,386,000 as at 30 June 2005. Subsequent to the balance sheet date, the bank loan has been restructured for a further five years.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and Renminbi.

### *Charged on Assets*

As at 30 June 2005, all the Group's investment properties and the issued shares of a wholly owned subsidiary of the Company are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group.

Property, plant and equipment and land lease prepayment of HK\$7,044,000 are pledged against a bank loan granted to the Group.



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## LETTER FROM THE BOARD

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### *Contingent Liabilities*

The Group did not have any material contingent liabilities as at 30 June 2005.

### *Employees and Remuneration Policies*

As at 30 June 2005, the Group has approximately 26 employees. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and according to the prevailing industry practice. Besides salary payments, other staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme.

### **FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP**

Upon Completion, Keycharm will become a 51% owned indirect subsidiary of the Company and the accounts of which will be consolidated into those of the Company.

Based on the unaudited pro forma assets and liabilities statement of the Enlarged Group as set out in Appendix III to this circular, the unaudited total assets of the Group as at 30 June 2005 were approximately HK\$330,748,000 and the unaudited pro forma total assets of the Enlarged Group would amount to approximately HK\$406,293,000. The unaudited total liabilities of the Group as at 30 June 2005 were approximately HK\$158,362,000 and the unaudited pro forma total liabilities of the Enlarged Group would amount to approximately HK\$215,195,000. It is expected that the Acquisition will not have any adverse effect on the earnings of the Group.

### **ADDITIONAL INFORMATION**

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

By order of the board of  
**Greater China Holdings Limited**  
**Ma Xiaoling**  
*Chairman*



7 April 2006

The Directors  
**Greater China Holdings Limited**

Dear Sirs,

We set out below our report on the financial information set out in section A to C (“Financial Information”) below regarding Keycharm Investments Limited (“Keycharm”) and its subsidiary (hereinafter collectively referred to as the “Keycharm Group”) for the period from 8 July 2005 (date of incorporation) to 31 December 2005 (“the Relevant Period”) for inclusion in the circular dated 7 April 2006 (“the Circular”) issued by Greater China Holdings Limited in connection with the acquisition of the 51% share capital in Keycharm.

Keycharm was incorporated under the British Virgin Islands International Business Companies Act as an International Business Company with limited liability on 8 July 2005 and its principal activity is investment holding. As at the date of this report, Keycharm holds 85.71% direct interest in 太倉中化國際興業石化開發建設有限公司 (“Taicang Sinochem”) which was established as a sino-foreign joint venture company in the People’s Republic of China (“the PRC”). Taicang Sinochem is engaged in industrial property development with focus on port infrastructure.

No audited financial statements have been prepared for Taicang Sinochem as there are no statutory requirements for Taicang Sinochem to prepare audited financial statements as Taicang Sinochem was a PRC domestic company before it was reformed as a sino-foreign joint venture company from 19 August 2005. For the audit of the consolidated financial statements of Keycharm, we have, however, carried out our own independent audit procedures on the management accounts for the period from 12 August 2004 (date of incorporation) to 31 December 2005.

No audited financial statements have been prepared for Keycharm since the date of incorporation as there are no statutory requirements for Keycharm to prepare audited financial statements. For the purpose of this report, we have, however, reviewed all the relevant transactions of this company for the Relevant Period.

For the purpose of this report, the directors of the Keycharm Group have prepared consolidated financial statements of the Keycharm for the Relevant Period, in accordance with Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). We have undertaken independent audits of the consolidated financial statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information of the Keycharm Group, which is expressed in Renminbi, for the Relevant Period set out in this report has been prepared from the audited consolidated financial statements of Keycharm (the "Underlying Financial Statements"), for the purpose of preparing our report for inclusion in the Circular. We have examined the Underlying Financial Statements of the Keycharm Group in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements of the Keycharm Group are the responsibility of the directors of Keycharm who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the financial information set out in this report from the Underlying Financial Statements of the Keycharm Group, to form an opinion on the financial information for the Keycharm Group and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Keycharm Group and Keycharm as at 31 December 2005 and of the loss and cash flows of the Keycharm Group for the Relevant Period.

## A. FINANCIAL INFORMATION

## Consolidated income statement

	<i>Notes</i>	<b>For the period from 8 July 2005 (date of incorporation) to 31 December 2005 RMB</b>
Bank interest income		293,533
Impairment loss on goodwill	<i>13</i>	(1,218,016)
Administrative expenses		<u>(2,631,762)</u>
Loss for the period	<i>5</i>	<u><u>(3,556,245)</u></u>
Attributable to:		
Equity holders of Keycharm		(3,223,763)
Minority interests		<u>(332,482)</u>
		<u><u>(3,556,245)</u></u>

## Consolidated balance sheet

	<i>Notes</i>	<b>As at 31 December 2005 RMB</b>
Non-current assets		
Plant and equipment	7	1,585,243
Prepaid lease payments	8	27,806,093
Project development costs	9	10,000,000
Prepayments	10	7,459,698
		<u>46,851,034</u>
Current assets		
Other receivables		206,710
Prepaid lease payments	8	631,957
Amount due from a former shareholder of a subsidiary	11	29,900,000
Amount due from a minority shareholder	11	29,900,000
Bank balances and cash		29,073,838
		<u>89,712,505</u>
Current liabilities		
Other payables		217,414
Amount due to a minority shareholder	16	30,000,000
Amount due to a shareholder	16	105,292
Loans from shareholders	16	90,000,000
		<u>120,322,706</u>
Net current liabilities		<u>(30,610,201)</u>
Net assets		<u><u>16,240,833</u></u>
Capital and reserves		
Share capital	18	81
Deficit		<u>(3,223,763)</u>
Equity attributable to equity holders of Keycharm		(3,223,682)
Minority interests		<u>19,464,515</u>
Total equity		<u><u>16,240,833</u></u>

**Balance sheet of Keycharm**

	<i>Notes</i>	<b>As at 31 December 2005 RMB</b>
Non-current asset		
Investment in a subsidiary	<i>14</i>	120,000,000
Current assets		
Amount due from a subsidiary	<i>12</i>	84,818
Bank balances and cash		9,705
		<u>94,523</u>
Current liabilities		
Amount due to a minority shareholder of a subsidiary	<i>16</i>	30,000,000
Amount due to a shareholder	<i>16</i>	105,292
Loans from shareholders	<i>16</i>	90,000,000
		<u>120,105,292</u>
Net current liabilities		<u>(120,010,769)</u>
		<u>(10,769)</u>
Capital and reserves		
Share capital	<i>18</i>	81
Deficit	<i>19</i>	(10,850)
		<u>(10,769)</u>

## Consolidated statement of changes in equity

	Attributable to equity holders of Keycharm			Minority interests RMB	Total RMB
	Share capital RMB	Deficit RMB	Total RMB		
	Issue of shares at date of incorporation	81	–		
Acquisition of a subsidiary ( <i>Note 20</i> )	–	–	–	19,715,796	19,715,796
Effect on additional capital contribution in Taicang Sinochem	–	–	–	81,201	81,201
Loss for the period	–	(3,223,763)	(3,223,763)	(332,482)	(3,556,245)
At 31 December 2005	<u>81</u>	<u>(3,223,763)</u>	<u>(3,223,682)</u>	<u>19,464,515</u>	<u>16,240,833</u>

## Consolidated cash flow statement

	<b>For the period from 8 July 2005 (date of incorporation) to 31 December 2005</b>
<i>Note</i>	<i>RMB</i>
Operating activities	
Loss for the period	(3,556,245)
Adjustments for:	
Depreciation	93,219
Impairment loss on goodwill	1,218,016
Bank interest income	(293,533)
Operating cash flows before moving in working capital	(2,538,543)
Increase in other receivables	(28,447)
Decrease in other payables	(1,465)
Increase in amount due to a shareholder	105,292
Net cash used in operating activities	(2,463,163)
Investing activities	
Acquisition of prepaid lease	(28,438,050)
Acquisition of a subsidiary	20 (19,991,642)
Payments on project development costs	(10,000,000)
Purchase of plant and equipment	(298,405)
Payments to developers	(28,516)
Interest received	293,533
Net cash used in investing activities	(58,463,080)
Financing activities	
Proceeds on issue of shares	81
Advance from shareholders	90,000,000
Cash from financing activities	90,000,081
Cash and cash equivalents at end of the period representing bank balances and cash	<u>29,073,838</u>



## NOTES TO THE FINANCIAL INFORMATION

### 1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Keycharm Group has not early applied the following new Hong Kong Financial Reporting Standards (“HKFRS(s)”), Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (hereinafter collectively referred to as “New HKFRSs”) that have been issued but are not yet effective:

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.

The directors of Keycharm anticipate that the application of these standards or interpretations will have no material impact on the Financial Information.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and on a going concern basis as the shareholder of Keycharm has agreed to provide adequate funds to enable the Keycharm Group to meet its financial obligations as they fall due in the foreseeable future. The significant accounting policies, which are detailed in (a) to (m) below, adopted in preparing this Financial Information are consistent with those adopted by Greater China Holdings Limited.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

#### (a) Basis of consolidation

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

The results of a subsidiary acquired during the period are included in the consolidated income statement from the effective date of acquisition.

Where necessary, adjustments are made to the financial information of Taicang Sinochem to bring its accounting policies into line with those used by Keycharm.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

**(b) Business combinations**

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

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Keycharm Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Keycharm Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**(c) Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Keycharm Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Keycharm Group's cash-generating units expected to benefit from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**(d) Investment in subsidiary**

Investment in subsidiary if included in Keycharm's balance sheet at cost less any identified impairment loss.

**(e) Revenue recognition**

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

**(f) Foreign currencies**

The financial information of each the group entity is presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Financial Information, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of Keycharm, and the presentation currency for the Financial Information.

In preparing the financial information of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

For the purpose of presenting the Financial Information, the assets and liabilities of the Keycharm Group's foreign operations are expressed in Renminbi using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Keycharm Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**(g) Retirement benefit costs**

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Keycharm Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. The payments are charged as an expense as they fall due.

**(h) Taxation**

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Keycharm Group intends to settle its current tax assets and liabilities on a net basis.

**(i) Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method, at 20% per annum.

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

**(j) Leasehold land for future owner-occupied purpose**

When the leasehold land is in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction.

**(k) Project development costs**

Project development costs are stated at cost less accumulated impairment losses.

These costs represent amounts incurred for professional services, salaries, permits and other costs directly related to construction. The continued capitalisation of such costs is subject to on-going risks related to successful completion, including those related to government approvals, siting, financing, construction, permitting and contract compliance. These costs are reclassified as investment properties or other properties as the case may be upon completion of the development.

**(l) Impairment of tangible assets excluding goodwill**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(m) Financial instruments**

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

*Loans and receivables*

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

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Keycharm Group and Keycharm are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Keycharm Group after deducting all of its liabilities.

## Other financial liabilities

Other financial liabilities including other payables, amount due to a minority shareholder of a subsidiary, amount due to a shareholder and loans from shareholders are subsequently measured at amortised cost, using the effective interest rate method.

## Equity instruments

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

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

**Depreciation**

The Keycharm Group's net book value of plant and equipment as at 31 December 2005 was approximately RMB1,585,000. The Keycharm Group depreciates the plant and machinery on a straight line basis over the estimated useful life of five years, and after taking into account of their estimated residual value, using the straight-line method, at the rate 20% per annum, commencing from the date the equipment is placed into productive use. The estimated useful lives and dates that the Keycharm Group places the plant and equipment into productive use reflects the directors' estimate of the periods that the Keycharm Group intends to derive future economic benefits from the use of the assets.

**Impairment loss on goodwill, project development costs and non-current prepayments**

Determining whether goodwill, project development costs and non-current prepayments are impaired requires an estimation of the value in use of the cash-generating units to which the asset has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

**Allowances for bad and doubtful debts on loans and receivables**

The policy for allowance of bad and doubtful debts of the Keycharm Group is based on the evaluation of collectability and aging analysis of balances and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these loans receivables, including the current creditworthiness and the past history of each counter party. The measurement of impairment loss is based on the estimated future cash flows expected to be collected. If the financial conditions of the counter party of the Keycharm Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

#### 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Keycharm Group's major financial instruments include other receivables, amount due from a former shareholder of a subsidiary, amount due from a minority shareholder; other payables, amount due to a minority shareholder of a subsidiary amount due to a shareholder and loans from shareholders. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

##### Credit risk

The Keycharm Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Keycharm Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Keycharm consider that the Keycharm Group's credit risk is significantly reduced.

The Keycharm Group has significant concentration of credit risk as a result of a few number of counter parties. If the relationship with these parties is terminated, it could materially and adversely affect the Keycharm Group's result.

##### Liquidity risk

The Keycharm Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs. Management comprising executive directors monitored the liquidity position of the Keycharm Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Keycharm Group's financial resources.

#### 5. LOSS FOR THE PERIOD

	<i>RMB</i>
Auditors' remuneration	24,000
Depreciation	93,219
Directors' remuneration	-
Staff costs	<u>1,287,879</u>

**6. TAXATION**

No provision for income tax has been made in the financial statements as the Keycharm has no assessable profit for the Relevant Period in the jurisdiction in which it operates.

The tax charge for the period can be reconciled to the loss for the period per consolidated income statement as follows:

	<i>RMB</i>
Loss for the period	<u>(3,556,245)</u>
Tax at the domestic tax rate of 33%	(1,173,561)
Tax effect of expenses not deductible for tax purpose	401,945
Tax effect of income not taxable for tax purpose	(96,866)
Tax effect of tax losses not recognised	<u>868,482</u>
Tax expense for the period	<u>—</u>

At 31 December 2005, Keycharm Group has unused tax losses of approximately RMB2,632,000. No deferred tax asset has been recognised in relation to the tax losses as it is not probable that future taxable profit will be available against which the tax losses can be utilised. The unused tax losses will expire in 2010.

**7. PLANT AND EQUIPMENT****The Keycharm Group**

	<b>Furniture and fixtures RMB</b>	<b>Motor vehicle RMB</b>	<b>Total RMB</b>
<b>COST</b>			
Acquisition of a subsidiary	165,167	1,214,890	1,380,057
Additions	<u>47,650</u>	<u>250,755</u>	<u>298,405</u>
At 31 December 2005	212,817	1,465,645	1,678,462
<b>DEPRECIATION</b>			
Provided for the period and at 31 December 2005	<u>10,707</u>	<u>82,512</u>	<u>93,219</u>
<b>NET BOOK VALUE</b>			
At 31 December 2005	<u>202,110</u>	<u>1,383,133</u>	<u>1,585,243</u>



**8. PREPAID LEASE PAYMENTS**

The Keycharm Group's prepaid lease payments represent land outside Hong Kong held under medium-term land use rights.

	<i>RMB</i>
Analysed for reporting purposes as:	
Non-current asset	27,806,093
Current asset	631,957
	28,438,050

**9. PROJECT DEVELOPMENT COSTS****The Keycharm Group**

The amount represents the costs incurred in connection with a port infrastructure project.

**10. PREPAYMENTS****The Keycharm Group**

The amount represents prepayments paid to various developers in connection with a potential port infrastructure project. On 8 January 2006, the Keycharm Group entered into a contract with 江蘇省太倉港港口開發建設投資公司 (「港口開發」), a minority shareholder of a subsidiary, pursuant to which 港口開發 agreed to assist the Keycharm Group in the procurement of the Government's granting of the land use rights for a port infrastructure project. In the event that the land use rights were not granted, 港口開發 would become liable to the costs that the Keycharm Group incurred.

**11. AMOUNT DUE FROM A FORMER SHAREHOLDER OF A SUBSIDIARY/A MINORITY SHAREHOLDER****The Keycharm Group**

The amount is unsecured, interest-free and repayable on demand. The directors consider that the carrying amount approximates its fair value.

**12. AMOUNT DUE FROM A SUBSIDIARY****Keycharm**

The amount is unsecured, interest-free and repayable on demand. The directors consider that the carrying amount approximates its fair value.

**13. IMPAIRMENT LOSS ON GOODWILL****The Keycharm Group**

During the period ended 31 December 2005, the Keycharm Group recognised an impairment loss of RMB1,218,016 in relation to the goodwill arising on acquisition of a subsidiary (note 20) amounted to RMB1,136,815 and the effect on additional capital contribution of RMB81,201.

Upon the acquisition of the subsidiary on 19 August 2005, the management of Keycharm anticipated profitability of the potential port infrastructure project to be developed by the subsidiary and thus goodwill was arisen. At the balance sheet date, the management of Keycharm Group reassessed the status of the relevant project and considered the uncertainty of whether future cash inflows would rise from this potential port infrastructure project. An impairment loss of RMB1,218,016 has been recognised in the income statement.

#### 14. INVESTMENT IN A SUBSIDIARY

RMB

Unlisted shares, at cost	<u>120,000,000</u>
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Details of Keycharm's subsidiary at 31 December 2005 are as follows:

Name of subsidiary	Country of registration/ operation	Registered capital	Proportion of registered capital held by Keycharm	Principal activities
太倉中化國際興業 石化開發建設 有限公司	The PRC	RMB140,000,000	85.71%	Industrial property development with focus on port infrastructure

Taicang Sinochem is a sino-foreign joint venture establishment in the People's Republic of China.

The subsidiary did not have any debt securities during the Relevant Period and at the balance sheet date.

#### 15. OTHER FINANCIAL ASSETS

##### The Keycharm Group and Keycharm

The carrying amounts of other financial assets approximate their fair value.

#### 16. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY/A SHAREHOLDER/LOANS FROM SHAREHOLDERS

##### The Keycharm Group and Keycharm

The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount approximates their fair value.

#### 17. OTHER FINANCIAL LIABILITIES

##### The Keycharm Group and Keycharm

The carrying amounts of other financial liabilities approximate their fair value.

#### 18. SHARE CAPITAL

	Authorised US\$	Issued and fully paid US\$
Shares of US\$1 each	<u>50,000</u>	<u>10</u>
Shown in the financial statements as		<u>RMB81</u>

During the period, Keycharm issued 10 shares of US\$1 each at par to its shareholder.

**19. DEFICIT OF KEYCHARM**

RMB

Loss for the period and balance at end of the period	<u>10,850</u>
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**20. ACQUISITION OF A SUBSIDIARY**

On 19 August 2005, Keycharm acquired RMB80 million of the registered capital of Taicang Sinochem for a consideration of RMB80 million. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction and the goodwill arising are as follows:

	<b>Acquiree's carrying amount before combination and the fair value</b>
	<i>RMB</i>
Net assets acquired:	
Plant and equipment	1,380,057
Prepayments	7,431,182
Other receivables	178,263
Amount due from a former shareholder of a subsidiary	29,900,000
Amount due from a minority shareholder	29,900,000
Bank balances and cash	30,008,358
Other payables	<u>(218,879)</u>
	98,578,981
Less: Minority interests	(19,715,796)
Add: Goodwill	<u>1,136,815</u>
Total consideration	<u>80,000,000</u>
Satisfied by:	
Cash	50,000,000
Amount due to a minority shareholder	<u>30,000,000</u>
	<u>80,000,000</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	50,000,000
Cash and cash equivalents acquired	<u>(30,008,358)</u>
	<u>19,991,642</u>

Taicang Sinochem did not contribute any revenue but incurred expenses amounting to RMB2,327,000 during the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 8 July 2005, loss for the period would have approximately RMB2,700,000. No revenue would be contributed by Taicang Sinochem as Taicang Sinochem has not yet commence its revenue generating activities.

On 15 September 2005, Keycharm injected RMB40 million as additional registered capital of Taicang Sinochem. Goodwill arising on this additional capital contribution amounted to RMB81,201.

## **21. CAPITAL COMMITMENTS**

### **The Keycharm Group**

At 31 December 2005, the Keycharm Group had capital expenditure contracted for but not yet provided in respect of the property development costs amounting to approximately RMB8,490,000.

### **Keycharm**

Keycharm had no capital commitment at 31 December 2005.

## **22. RETIREMENT BENEFIT SCHEMES**

The employees of Keycharm's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Keycharm Group with respect to the retirement benefit scheme is to make the specified contributions. The contributions made during the Relevant Period were RMB19,000.

## **23. RELATED PARTY TRANSACTION**

The Keycharm Group and Keycharm maintained certain balances with related parties. Details of these are set out in notes 11, 12 and 16. There is no related party transaction during the Relevant Period.

**B. SUBSEQUENT EVENTS**

There were no significant events which had taken place subsequent to 31 December 2005.

**C. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Keycharm Group, Keycharm or its subsidiary have been issued subsequent to 31 December 2005.

Yours faithfully  
**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong

## 1. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated results and assets and liabilities of the Group for each of the three years ended 31 December 2004 as extracted from the respective published audited financial statements.

	Year ended 31 December		
	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>15,207</u>	<u>25,287</u>	<u>43,126</u>
Profit (loss) before taxation	11,948	(116,375)	(74,653)
Income tax	<u>(334)</u>	<u>8,584</u>	<u>(8,696)</u>
Profit (loss) before minority interests	11,614	(107,791)	(83,349)
Minority interests	<u>648</u>	<u>—</u>	<u>—</u>
Profit (loss) for the year	<u>12,262</u>	<u>(107,791)</u>	<u>(83,349)</u>
Dividends	<u>—</u>	<u>—</u>	<u>—</u>
Earnings (loss) per share (HK\$)			
Basic (note 1)	<u>0.06</u>	<u>(0.73)</u>	<u>(0.76)</u>
Diluted (note 1)	<u>N/A</u>	<u>(0.73)</u>	<u>(0.76)</u>

## ASSETS AND LIABILITIES

	As at 31 December		
	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	277,306	255,034	300,468
Current assets	<u>26,252</u>	<u>16,904</u>	<u>116,407</u>
Total assets	<u>303,558</u>	<u>271,938</u>	<u>416,875</u>
Current liabilities	(169,208)	(39,790)	(66,592)
Non-current liabilities	<u>(1,104)</u>	<u>(130,500)</u>	<u>(146,943)</u>
Total liabilities	<u>(170,312)</u>	<u>(170,290)</u>	<u>(213,535)</u>
Minority interests	<u>(184)</u>	<u>—</u>	<u>—</u>
Shareholder's funds	<u>133,062</u>	<u>101,648</u>	<u>203,340</u>

*Notes:*

1. The calculation of the earnings/(loss) per share was based on the audited consolidated profit/(loss) for the year and on the weighted average number of 221,341,000 shares, 146,686,000 shares and 110,254,000 shares in issue during the year 2004, year 2003 and year 2002 respectively. No diluted earnings per share was presented as there were no dilutive potential ordinary shares in existence during the year 2004. The computation of diluted loss per share for the year 2003 and year 2002 did not assume the exercise of outstanding warrants in year 2003 and outstanding share options in year 2002 since their exercises would decrease the loss per share.
2. For the three years ended 31 December 2004, the Group did not have any extraordinary/exceptional items and dividend, except realised loss on surrender of other investments to discharge borrowing of HK\$46,620,000 in year 2003, allowance for doubtful loans receivable of HK\$30,000,000 and allowance for amount receivable in respect of disposal of an investee company of HK\$25,000,000 in year 2002.

## 2. AUDITORS' REPORT AND AUDITED FINANCIAL STATEMENTS

Set out below are the full texts of the auditors' report of the Company and the audited financial statements together with the relevant notes to the financial statements as extracted from the annual reports of the Company for the year ended 31 December 2004. Reference to page number in the auditors' report is to the page numbers of the 2004 annual report of the Company.



### TO THE MEMBERS OF GREATER CHINA HOLDINGS LIMITED

大中華實業控股有限公司

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 17 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu***Certified Public Accountants*

Hong Kong, 20 April 2005

**CONSOLIDATED INCOME STATEMENT***For the year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	4	15,207	25,287
Rental outgoings		(1,356)	(1,944)
Cost of sales		<u>(7,195)</u>	<u>(31,427)</u>
Gross profit (loss)		6,656	(8,084)
Other operating income		71	89
Revaluation increase (decrease) on investment properties		11,000	(45,000)
Unrealised holding gain (loss) of other investments		4,709	(5,620)
Selling and distribution costs		(49)	–
Administrative expenses		(5,822)	(7,530)
Amortisation of goodwill on acquisition of subsidiaries		(820)	–
Impairment loss on leasehold land and buildings		(813)	–
Reversal of accrued charges in respect of financial restructuring of the Group in prior years		–	5,102
Realised loss on surrender of other investments to discharge borrowings	5	<u>–</u>	<u>(46,620)</u>
Profit (loss) from operations	6	14,932	(107,663)
Finance costs	7	<u>(2,984)</u>	<u>(8,712)</u>
Profit (loss) before taxation		11,948	(116,375)
Income tax	10	<u>(334)</u>	<u>8,584</u>
Profit (loss) before minority interests		11,614	(107,791)
Minority interests		<u>648</u>	<u>–</u>
Net profit (loss) for the year		<u><u>12,262</u></u>	<u><u>(107,791)</u></u>
		<i>HK\$</i>	<i>HK\$</i>
Earnings (loss) per share	11		
– Basic		<u>0.06</u>	<u>(0.73)</u>
– Diluted		<u>N/A</u>	<u>(0.73)</u>

## CONSOLIDATED BALANCE SHEET

At 31 December 2004

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Non-Current Assets</b>			
Property, plant and equipment	<i>12</i>	8,306	34
Investment properties	<i>13</i>	266,000	255,000
Goodwill	<i>14</i>	–	–
Investments in securities	<i>16</i>	3,000	–
		<u>277,306</u>	<u>255,034</u>
<b>Current Assets</b>			
Inventories	<i>17</i>	227	–
Investments in securities	<i>16</i>	19,214	14,695
Trade and other receivables	<i>18</i>	1,342	320
Prepayments and deposits		1,389	1,014
Bank balances and cash		4,080	875
		<u>26,252</u>	<u>16,904</u>
<b>Current Liabilities</b>			
Trade and other payables	<i>19</i>	9,986	8,445
Consideration payable for acquisition of subsidiaries	<i>20</i>	4,000	–
Amounts due to directors		3,268	1,868
Amount due to a minority shareholder	<i>31</i>	3,583	–
Rental deposits		3,241	2,837
Taxation		14,687	14,687
Bank and other borrowings	<i>21</i>	130,443	11,953
		<u>169,208</u>	<u>39,790</u>
<b>Net Current Liabilities</b>		<u>(142,956)</u>	<u>(22,886)</u>
		<u>134,350</u>	<u>232,148</u>
<b>Capital and Reserves</b>			
Share capital	<i>22</i>	1,192	828
Reserves	<i>24</i>	131,870	100,820
		<u>133,062</u>	<u>101,648</u>
<b>Minority interests</b>		<u>184</u>	<u>–</u>
<b>Non-current Liabilities</b>			
Bank and other borrowings	<i>21</i>	–	130,500
Deferred tax liability	<i>25</i>	1,104	–
		<u>1,104</u>	<u>130,500</u>
		<u>134,350</u>	<u>232,148</u>

**COMPANY BALANCE SHEET***At 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>Non-Current Asset</b>			
Interests in subsidiaries	<i>15</i>	153,406	119,580
<b>Current Assets</b>			
Prepayments and deposits		155	153
Bank balances and cash		47	44
		202	197
<b>Current Liabilities</b>			
Other payables		2,511	2,252
Amounts due to subsidiaries		36,293	35,725
Amounts due to directors		3,268	1,868
Other borrowings	<i>21</i>	–	1,500
		42,072	41,345
<b>Net Current Liabilities</b>		(41,870)	(41,148)
		<u>111,536</u>	<u>78,432</u>
<b>Capital and Reserves</b>			
Share capital	<i>22</i>	1,192	828
Reserves	<i>24</i>	110,344	77,604
		<u>111,536</u>	<u>78,432</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 31 December 2004*

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Total equity at beginning of the year	101,648	203,340
Net profit (loss) for the year	12,262	(107,791)
Issue of shares	19,152	6,099
Total equity at end of the year	<u>133,062</u>	<u>101,648</u>

**CONSOLIDATED CASH FLOW STATEMENT***For the year ended 31 December 2004*

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit (loss) from operations	14,932	(107,663)
Adjustments for:		
Amortisation and depreciation	1,193	42
Impairment loss on leasehold land and buildings	813	–
Unrealised holding (gain) loss of other investments	(4,709)	5,620
Revaluation (increase) decrease on investment properties	(11,000)	45,000
Loss on disposal of property, plant and equipment	–	42
Reversal of accrued charges in respect of financial restructuring of the Group in prior years	–	(5,102)
Realised loss on surrender of other investments to discharge borrowings	–	46,620
	<hr/>	<hr/>
Operating cash flows before movements in working capital	1,229	(15,441)
Increase in inventories	(169)	–
Decrease in other investments	190	27,230
(Increase) decrease in trade and other receivables	(858)	479
(Increase) decrease in prepayments and deposits	(97)	89
Increase (decrease) in trade and other payables	1,322	(940)
Increase in amounts due to directors	1,400	1,868
Increase in rental deposits	404	182
	<hr/>	<hr/>
Cash from operations	3,421	13,467
Interest paid	(2,765)	(8,790)
Finance charges on finance lease paid	–	(6)
Hong Kong Profits Tax paid	–	(59)
	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>656</b>	<b>4,612</b>

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities		(3,000)	–
Net cash outflow arising from acquisition of subsidiaries	26	(666)	–
Purchases of property, plant and equipment		(624)	–
Proceeds on disposal of property, plant and equipment		–	350
		<u>          </u>	<u>          </u>
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>		<u>(4,290)</u>	<u>350</u>
<b>FINANCING ACTIVITIES</b>			
Issue of shares		19,152	6,099
Advance from a minority shareholder		640	–
Repayment of bank loans		(10,550)	(9,100)
Repayment of other short term borrowings		(2,403)	(9,896)
New short term borrowings raised		–	8,000
Repayment of loans from directors		–	(314)
Repayment of obligations under a finance lease		–	(143)
		<u>          </u>	<u>          </u>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		<u>6,839</u>	<u>(5,354)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		3,205	(392)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>875</u>	<u>1,267</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash</b>		<u><u>4,080</u></u>	<u><u>875</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2004*

**1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in property investment, securities trading, production and sale of fertilizers and investment holding.

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

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

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

**Investments in subsidiaries**

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

**Investments in securities**

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

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

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

**Revenue recognition**

Sale of goods is recognised when goods are delivered and title has passed.

Rental income in respect of properties under operating leases, where substantially all the risks and rewards of ownership of assets remain with the lessor, is recognised over the lease term of the respective tenancy on a straight-line basis.

Sale proceeds on trading of securities are recognised on a trade date basis when the sale and purchase agreement becomes unconditional.

**Property, plant and equipment**

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

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	5%
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	20%

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

**Impairment**

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

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



**Investment properties**

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

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

**Inventories**

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

**Operating leases**

Rentals payable in respect of operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

**Foreign currencies**

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

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

**Taxation**

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

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

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

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

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

#### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme (the “MPF Scheme”) and state-managed retirement benefit scheme are charged as an expense as they fall due.

#### **4. TURNOVER AND SEGMENT INFORMATION**

Turnover represents the aggregate of proceeds from securities trading, rental income and proceeds from sale of goods.

#### **Business segments**

For management purposes, the Group is currently organised into production and sale of fertilizers, investment holding and property investment divisions, which are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

### INCOME STATEMENT

*For the year ended 31 December 2004*

	<b>Production and sale of fertilizers</b>	<b>Investment holding</b>	<b>Property investment</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
SEGMENT TURNOVER	6,420	552	8,235	15,207
RESULTS				
Segment result	(2,211)	4,399	17,607	19,795
Unallocated corporate expenses				(4,863)
Profit from operations				14,932
Finance costs				(2,984)
Profit before taxation				11,948
Income tax				(334)
Profit before minority interests				11,614
Minority interests				648
Net profit for the year				12,262

*For the year ended 31 December 2003*

	<b>Production and sale of fertilizers</b>	<b>Investment holding</b>	<b>Property investment</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
SEGMENT TURNOVER	–	17,758	7,529	25,287
RESULTS				
Segment result	–	(66,422)	(39,949)	(106,371)
Other operating income				89
Reversal of accrued charges in respect of financial restructuring of the Group in prior years				5,102
Unallocated corporate expenses				(6,483)
Loss from operations				(107,663)
Finance costs				(8,712)
Loss before taxation				(116,375)
Income tax				8,584
Loss for the year				(107,791)

**BALANCE SHEET***At 31 December 2004*

	<b>Production and sale of fertilizers</b> <i>HK\$'000</i>	<b>Investment holding</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	9,995	22,214	267,323	299,532
Unallocated corporate assets				4,026
Consolidated total assets				<u>303,558</u>
<b>LIABILITIES</b>				
Segment liabilities	1,153	–	8,190	9,343
Unallocated corporate liabilities				160,969
Consolidated total liabilities				<u>170,312</u>

*At 31 December 2003*

	<b>Production and sale of fertilizers</b> <i>HK\$'000</i>	<b>Investment holding</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	–	14,705	256,155	270,860
Unallocated corporate assets				1,078
Consolidated total assets				<u>271,938</u>
<b>LIABILITIES</b>				
Segment liabilities	–	330	7,884	8,214
Unallocated corporate liabilities				162,076
Consolidated total liabilities				<u>170,290</u>

**OTHER INFORMATION***For the year ended 31 December 2004*

	<b>Production and sale of fertilizers</b> <i>HK\$'000</i>	<b>Investment holding</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>
Additions to property, plant and equipment			
Acquisition of subsidiaries	8,834	–	–
Other additions	624	–	–
Goodwill arising on acquisition of subsidiaries	820	–	–
Amortisation and depreciation	1,193	–	–
Impairment loss on leasehold land and buildings	813	–	–
	<u>          </u>	<u>          </u>	<u>          </u>

*For the year ended 31 December 2003*

	<b>Production and sale of fertilizers</b> <i>HK\$'000</i>	<b>Investment holding</b> <i>HK\$'000</i>	<b>Property investment</b> <i>HK\$'000</i>
Realised loss on surrender of other investments to discharge borrowings	–	46,620	–
Unrealised holding loss of other investments	–	5,620	–
Revaluation decrease on investment properties	–	–	45,000
	<u>          </u>	<u>          </u>	<u>          </u>

**Geographical segments**

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

	<b>Sales revenue by geographical market</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Hong Kong	8,787	25,287
Other regions in the People's Republic of China (the "PRC")	6,420	–
	<u>          </u>	<u>          </u>
	<u>15,207</u>	<u>25,287</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	289,489	270,860	8	–
PRC	10,043	–	10,270	–
	<u>299,532</u>	<u>270,860</u>	<u>10,278</u>	<u>–</u>

#### 5. REALISED LOSS ON SURRENDER OF OTHER INVESTMENTS TO DISCHARGE BORROWINGS

	2004 HK\$'000	2003 HK\$'000
Realised loss on surrender of shares of China Gas Holdings Limited (“China Gas”) to certain lenders to discharge borrowings	<u>–</u>	<u>46,620</u>

During the year ended 31 December 2003, the Group surrendered 63 million shares of China Gas to certain lenders to discharge borrowings of HK\$18,900,000. At 1 January 2003, the carrying value of these shares was HK\$65,520,000. At the dates when the Group agreed to surrender the shares, the market value of these shares was HK\$46,380,000. As a result, the Group realised losses of HK\$46,620,000 from surrendering these shares, including losses of HK\$27,480,000 which represent the shortfall between the market values, at the dates when the Group agreed to surrender the shares, and the amount of borrowings discharged.

#### 6. PROFIT (LOSS) FROM OPERATIONS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging (crediting):		
Amortisation of goodwill	820	–
Depreciation and amortisation		
Owned assets	373	11
Asset held under a finance lease	–	31
Total amortisation and depreciation	1,193	42
Auditors' remuneration		
– current year	400	300
– underprovision in prior years	55	–
Loss on disposal of property, plant and equipment	–	42
Rental income less outgoings	(6,879)	(5,585)
Realised loss on sale of other investments	40	13,669
Staff costs including directors' emoluments	<u>3,407</u>	<u>3,182</u>

## 7. FINANCE COSTS

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	2,575	4,024
Other loans wholly repayable within five years	190	4,682
Consideration payable for acquisition of subsidiaries ( <i>note 20</i> )	219	–
Finance lease	–	6
	<u>2,984</u>	<u>8,712</u>

## 8. DIRECTORS' EMOLUMENTS

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees	390	460
Other emoluments – executive directors		
Salaries and other benefits	<u>1,920</u>	<u>1,920</u>
	<u>2,310</u>	<u>2,380</u>

The directors' fees disclosed above include directors' fees of HK\$270,000 (2003: HK\$340,000) payable to independent non-executive directors.

The emoluments of the directors are individually below HK\$1,000,000 (2003: HK\$1,000,000).

## 9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: three) are directors of the Company whose emoluments are included in note 8 above. The emoluments of the remaining three (2003: two) are as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	586	390
Retirement benefit scheme contributions	<u>28</u>	<u>18</u>
	<u>614</u>	<u>408</u>

Their emoluments were within the following band:

	<b>2004</b>	<b>2003</b>
	<b>Number of employees</b>	<b>Number of employees</b>
Nil to HK\$1,000,000	<u>3</u>	<u>2</u>

## 10. INCOME TAX

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge (credit) for the year comprises:		
Hong Kong Profits Tax	–	59
Deferred tax ( <i>note 25</i> )	334	(8,643)
	<u>334</u>	<u>(8,584)</u>

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. The tax charge for prior year represented underprovision in prior years.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary in the PRC is entitled to exemption from PRC enterprise income tax for the first two years commencing from its first profit-making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC enterprise income tax for the following three years.

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

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) before taxation	<u>11,948</u>	<u>(116,375)</u>
Tax charge (credit) at Hong Kong profits		
tax rate of 17.5% (2003: 17.5%)	2,091	(20,366)
Tax effect of non-deductible expenses	1,150	9,101
Tax effect of non-taxable income	(1,561)	(757)
Tax effect of current year's tax loss not recognised	91	2,884
Tax effect of utilisation of tax losses not previously recognised	(1,372)	–
Effect of tax concession granted to a PRC subsidiary	(94)	–
Effect of difference in tax rates	29	–
Tax effect of utilisation of deductible temporary difference not previously recognised	–	(315)
Increase in opening deferred tax liability		
due to increase in tax rate	–	810
Underprovision in prior year	–	59
Tax charge (credit) for the year	<u>334</u>	<u>(8,584)</u>



**11. EARNINGS (LOSS) PER SHARE**

The calculation of basic earnings (loss) per share for the year is based on the net profit for the year of HK\$12,262,000 (2003: net loss of HK\$107,791,000) and on the weighted average number of 221,341,000 (2003: 146,686,000) ordinary shares in issue during the year.

The diluted earnings per share for the year has not been presented as there were no dilutive potential ordinary shares in existence during the year.

The computation of diluted loss per share for prior year did not assume the exercise of the outstanding warrants since their exercises would decrease the loss per share.

**12. PROPERTY, PLANT AND EQUIPMENT****THE GROUP**

	<b>Leasehold land and buildings</b> <i>HK\$'000</i>	<b>Plant and machinery</b> <i>HK\$'000</i>	<b>Furniture, fixtures and equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
COST					
At 1 January 2004	–	–	50	–	50
Acquisition of subsidiaries	7,783	898	39	114	8,834
Additions	558	26	40	–	624
At 31 December 2004	<u>8,341</u>	<u>924</u>	<u>129</u>	<u>114</u>	<u>9,508</u>
DEPRECIATION AND AMORTISATION AND IMPAIRMENT					
At 1 January 2004	–	–	16	–	16
Provided for the year	276	60	20	17	373
Impairment loss recognised in income statement	813	–	–	–	813
At 31 December 2004	<u>1,089</u>	<u>60</u>	<u>36</u>	<u>17</u>	<u>1,202</u>
NET BOOK VALUES					
At 31 December 2004	<u><u>7,252</u></u>	<u><u>864</u></u>	<u><u>93</u></u>	<u><u>97</u></u>	<u><u>8,306</u></u>
At 31 December 2003	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>34</u></u>	<u><u>–</u></u>	<u><u>34</u></u>

The leasehold land and buildings are situated in the PRC under a medium-term lease.

During the year, the directors conducted a review of the Group's manufacturing assets and determined that the land and buildings are impaired in view of the current operating results. Accordingly, impairment loss of HK\$813,000 is recognised in income statement.

## 13. INVESTMENT PROPERTIES

	<b>THE GROUP</b> <i>HK\$'000</i>
VALUATION	
At 1 January 2004	255,000
Revaluation increase	11,000
	<hr/>
At 31 December 2004	<u>266,000</u>

Investment properties are located in Hong Kong under long leases. Investment properties were revalued at open market value at 31 December 2004 by LCH (Asia-Pacific) Surveyors Limited, a firm of chartered surveyors, on an open market existing use basis. The revaluation increase of HK\$11,000,000 has been credited to consolidated income statement.

At 31 December 2004, substantially all the investment properties were rented out under operating leases.

## 14. GOODWILL

	<b>THE GROUP</b> <i>HK\$'000</i>
At 1 January 2004	–
Arising on acquisition of subsidiaries	820
Amortisation for the year	(820)
	<hr/>
At 31 December 2004	<u>–</u>

Subsequent to the balance sheet date, the consideration for acquisition of subsidiaries has been revised from HK\$30,000,000 to HK\$5,000,000 as described in note 33. Accordingly, the goodwill on acquisition of subsidiaries is reduced to HK\$820,000.

## 15. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	2	2
Amounts due from subsidiaries	289,501	278,697
	<hr/>	<hr/>
	289,503	278,699
Less: Allowances	(136,097)	(159,119)
	<hr/>	<hr/>
	<u>153,406</u>	<u>119,580</u>

Particulars of the subsidiaries at 31 December 2004, which are operating in Hong Kong except otherwise stated, are as follows:

Name	Place of incorporation	Issued and fully paid ordinary share capital/registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Faith Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Property investment
Delight Link Enterprises Limited	Hong Kong	Ordinary HK\$2	100%	–	Provision of administrative services to group companies
Everstate Investment Limited	British Virgin Islands	Ordinary US\$100	100%	–	Investment holding
Greater China Corporate Service Limited	Hong Kong	Ordinary HK\$1,000	100%	–	Provision of nominee and corporate services
Greatfield Corporation Limited	Hong Kong	Ordinary HK\$2	100%	–	Investment holding
Lucky Green Limited	British Virgin Islands	Ordinary US\$100	–	51%	Investment holding
Profit Capital Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Sharp Star Investment Corporation	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd. ("Zhuhai Rui Nong") *	PRC	Registered capital RMB4,812,895	–	51%	Production and sale of fertilizers
Zing World Enterprises Limited	British Virgin Islands	Ordinary US\$100	–	100%	Investment holding

\* A wholly foreign owned enterprise and operating in the PRC

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

None of the subsidiaries had issued any debt securities at the balance sheet date.

## 16. INVESTMENTS IN SECURITIES

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment securities:		
Unlisted equity investment, at cost	3,000	–
Other investments:		
Unlisted equity investments, at cost	37,010	37,010
Less: unrealised holding loss	(37,010)	(37,010)
	–	–
Equity investments listed in		
Hong Kong, at market value ( <i>note</i> )	19,166	14,695
Unit trust outside Hong Kong, at quoted value	48	–
	19,214	14,695
	<u>22,214</u>	<u>14,695</u>
Carrying amount analysed for reporting purpose as:		
Non-current	3,000	–
Current	19,214	14,695
	<u>22,214</u>	<u>14,695</u>

*Note:* The amount represents a 0.94% (2003: 1.33%) interest in China Gas which was incorporated in Bermuda and is principally engaged in investing in natural gas/energy projects, property investment and securities investment.

## 17. INVENTORIES

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials, at cost	63	–
Finished goods, at cost	164	–
	<u>227</u>	<u>–</u>

**18. TRADE AND OTHER RECEIVABLES**

Rentals receivable from tenants are payable on presentation of invoices. The Group allows a credit period of 30 days to 90 days to other trade customers.

The following is an aged analysis of trade and other receivables of the Group at the balance sheet date:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	936	204
61 – 90 days	262	26
Over 90 days	144	90
	<u>1,342</u>	<u>320</u>

**19. TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade and other payables of the Group at the balance sheet date:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	1,480	1,463
61 – 90 days	102	575
Over 90 days	8,404	6,407
	<u>9,986</u>	<u>8,445</u>

**20. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration payable for acquisition of subsidiaries	29,000	–
Reduction of consideration ( <i>note 33</i> )	(25,000)	–
	<u>4,000</u>	<u>–</u>

The amount represents the outstanding consideration for the acquisition of a 51% interest in Lucky Green Limited and its subsidiary (*note 26*), which bears interest at 1% per annum and is payable in or before March 2005. Subsequent to the balance sheet date, the consideration payable was reduced to HK\$4,000,000, as described in *note 33*.

## 21. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans ( <i>note a</i> )	128,693	138,300	–	–
Margin loans ( <i>note a</i> )	1,750	2,653	–	–
Other loan ( <i>note b</i> )	–	1,500	–	1,500
	<u>130,443</u>	<u>142,453</u>	<u>–</u>	<u>1,500</u>
Secured	130,443	140,953	–	–
Unsecured	–	1,500	–	1,500
	<u>130,443</u>	<u>142,453</u>	<u>–</u>	<u>1,500</u>
The maturity of the borrowings is as follows:				
Repayable				
– on demand or within one year	130,443	11,953	–	1,500
– between one to two years	–	130,500	–	–
	<u>130,443</u>	<u>142,453</u>	<u>–</u>	<u>1,500</u>
Less: Amount due within one year shown under current liabilities	<u>(130,443)</u>	<u>(11,953)</u>	<u>–</u>	<u>(1,500)</u>
	<u>–</u>	<u>130,500</u>	<u>–</u>	<u>–</u>

*Notes:*

- (a) The loans bear interest at market rates.
- (b) Up to 30 July 2003, the lender charged interest at 18% per annum and since then, the loan was interest free and had been fully repaid during the year ended 31 December 2004.

## 22. SHARE CAPITAL

	Number of shares '000	Nominal amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each at 1 January 2003	20,000,000	2,000,000
Reduction of the nominal value of share capital of HK\$0.10 each to HK\$0.0001 each	–	(1,998,000)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	(19,600,000)	–
Increase in authorised share capital of HK\$0.005 each	<u>421,578,000</u>	<u>2,107,890</u>
Ordinary shares of HK\$0.005 each at 31 December 2003 and 2004	<u>421,978,000</u>	<u>2,109,890</u>
Preference shares of HK\$0.10 each at 1 January 2003	1,100,000	110,000
Reduction of the nominal value of share capital of HK\$0.10 each to HK\$0.0001 each	–	(109,890)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	<u>(1,078,000)</u>	<u>–</u>
Preference shares of HK\$0.005 each at 31 December 2003 and 2004	<u>22,000</u>	<u>110</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each at 1 January 2003	6,899,557	689,956
Reduction of the nominal value of share capital of HK\$0.10 each to HK\$0.0001 each	–	(689,266)
Consolidation of every 50 shares of HK\$0.0001 each to one share of HK\$0.005 each	(6,761,566)	–
Issue of shares	<u>27,598</u>	<u>138</u>
Ordinary shares of HK\$0.005 each at 31 December 2003	165,589	828
Issue of shares	<u>72,800</u>	<u>364</u>
Ordinary shares of HK\$0.005 each at 31 December 2004	<u>238,389</u>	<u>1,192</u>

During the year, pursuant to subscription agreements, 33,100,000 and 39,700,000 ordinary shares of HK\$0.005 each were issued at HK\$0.231 and HK\$0.2898 per share for cash, respectively, to provide additional working capital to the Group.

**23. SHARE OPTION SCHEME**

Pursuant to an ordinary resolution passed at the special general meeting of shareholders held on 22 April 2002, the Company adopted a share option scheme (the "Scheme") which enables the directors of the Company to grant options to the employees (including directors) of the Group in recognition of their contribution to the Group. The Scheme will expire on 21 April 2012.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the shareholders of the Company. Each grant of options to a connected person must be approved by independent non-executive directors. Options granted to any substantial shareholder or independent non-executive director or their associate in excess of 0.1% of the share capital of the Company or with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the shareholders of the Company.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1 per option. Any option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the share of the Company on the date of grant, and the average closing price of the share on the Stock Exchange for the five business days immediately preceding the date of grant.

During the year ended 31 December 2003 and 2004, no options were granted under the Scheme.

**24. RESERVES****THE GROUP**

	<b>Share premium</b>	<b>Deficit</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	323,342	(809,958)	(486,616)
Issue of shares	5,961	–	5,961
Arising from the capital reduction	–	689,266	689,266
Net loss for the year	–	(107,791)	(107,791)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	329,303	(228,483)	100,820
Issue of shares	18,788	–	18,788
Net profit for the year	–	12,262	12,262
	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>348,091</u>	<u>(216,221)</u>	<u>131,870</u>



## THE COMPANY

	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Deficit</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2003	323,342	64,379	(937,374)	(549,653)
Issue of shares	5,961	–	–	5,961
Arising from the capital reduction	–	–	689,266	689,266
Net loss for the year	–	–	(67,970)	(67,970)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	329,303	64,379	(316,078)	77,604
Issue of shares	18,788	–	–	18,788
Net profit for the year	–	–	13,952	13,952
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>348,091</u>	<u>64,379</u>	<u>(302,126)</u>	<u>110,344</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

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

At 31 December 2004 and 2003, the Company had no reserve available for distribution to shareholders.

**25. DEFERRED TAX**

At the balance sheet date and during the year, deferred tax liabilities (assets) have been recognised in respect of the temporary differences attributable to the following:

**THE GROUP**

	<b>Property, plant and equipment</b> <i>HK\$'000</i>	<b>Investment properties</b> <i>HK\$'000</i>	<b>Unrealised holding gain on other investments</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2003	46	1,052	8,643	(1,098)	8,643
Charge (credit) to income statement					
Effect of change in tax rate	4	99	810	(103)	810
(Credit) charge to income statement	(44)	211	(8,881)	(739)	(9,453)
At 31 December 2003 and at 1 January 2004	6	1,362	572	(1,940)	–
Acquisition of subsidiaries	770	–	–	–	770
Charge (credit) to income statement	(114)	940	801	(1,293)	334
At 31 December 2004	<u>662</u>	<u>2,302</u>	<u>1,373</u>	<u>(3,233)</u>	<u>1,104</u>

At the balance sheet date, the Group has unused tax losses of HK\$90,653,000 (2003: HK\$95,569,000), a substantial amount of which has not been agreed by the Inland Revenue Department, available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$18,477,000 (2003: HK\$11,089,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$72,176,000 (2003: HK\$84,480,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

**THE COMPANY**

At the balance sheet date, the Company has unused tax losses of HK\$8,048,000 (2003: HK\$8,048,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

**26. ACQUISITION OF SUBSIDIARIES**

In March 2004, the Group acquired a 51% interest in Lucky Green Limited, which holds a 100% interest in the registered capital of Zhuhai Rui Nong, for a cash consideration of HK\$30,000,000. Subsequent to the balance sheet date, the purchase consideration has been revised from HK\$30,000,000 to HK\$5,000,000, as disclosed in note 33. Zhuhai Rui Nong was established in the PRC and is principally engaged in the production and sale of fertilizers. This transaction has been accounted for using the purchase method of accounting.

	<i>HK\$'000</i>
Net assets acquired	
Property, plant and equipment	8,834
Inventories	58
Trade receivables	164
Prepayments and deposits	278
Bank balances and cash	334
Amount due to a minority shareholder	(2,943)
Bank loan	(943)
Deferred tax liability	(770)
Minority interests	(832)
	4,180
Goodwill arising on acquisition ( <i>Note</i> )	820
	5,000
Consideration	5,000
Less: deferred consideration ( <i>note 20</i> )	(4,000)
	1,000
Cash consideration	
Net cash outflow arising on acquisition	
Cash consideration paid	(1,000)
Bank balances and cash acquired	334
	(666)

*Note:* Amount represents goodwill arising on acquisition after the effect of adjustment to consideration as described in note 33.

The subsidiaries acquired during the year contributed HK\$6,420,000 to the Group's turnover and incurred a loss from operation of HK\$1,391,000.

**27. MAJOR NON-CASH TRANSACTION**

During the year ended 31 December 2003, the Group surrendered certain shares of China Gas with an aggregate market value of HK\$46,380,000 for the settlement of loans of HK\$18,900,000 as disclosed in note 5.

**28. CONTINGENT LIABILITIES****THE COMPANY**

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantee given to a bank in respect of a loan facility granted to a wholly-owned subsidiary	<u>127,750</u>	<u>138,300</u>

**THE GROUP**

At the balance sheet date, the Group has no contingent liabilities.

**29. OPERATING LEASE ARRANGEMENTS****The Group as lessor**

At the balance sheet date, investment properties were leased out for periods ranging from 1 to 5 years and some of the leases have renewal options given to the leases. The future minimum leases payments receivable by the Group under non-cancellable operating leases is as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	8,227	6,474
Later than one year but not later than five years	<u>9,075</u>	<u>5,559</u>
Total	<u>17,302</u>	<u>12,033</u>

**30. PLEDGED ASSETS**

- (a) At 31 December 2004 and 2003, all the Group's investment properties and investment in shares of China Faith Limited are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group.
- (b) Other investments of HK\$19,166,000 (2003: HK\$14,695,000) are pledged against margin loan facilities granted to the Group.
- (c) Property, plant and equipment of HK\$6,795,000 (2003: nil) are pledged against a bank loan granted to the Group.

**31. RELATED PARTY TRANSACTIONS AND BALANCES**

During the year, the Group obtained an advance from a minority shareholder through the acquisition of subsidiary.

The amounts due to directors and a minority shareholder at the balance sheet date are disclosed in the balance sheets. The amounts are interest free, unsecured and repayable on demand.

During the year, a minority shareholder provides a guarantee, at no charge to the Group, to a bank for a bank loan of HK\$943,000 granted to a subsidiary.

**32. RETIREMENT BENEFITS SCHEMES**

The Group is required to participate in the MPF Scheme in respect of its employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Both the Group and its employees contribute 5% of the relevant payroll costs to the MPF Scheme.

The employees of the Company's subsidiary established in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Contributions to the retirement benefit schemes for the year amounted to HK\$41,000 (2003: HK\$35,000).

**33. POST BALANCE SHEET EVENTS**

- (a) Subsequent to the balance sheet date, agreement was reached with the vendors of 51% interest in Lucky Green Limited pursuant to which the total consideration has been revised from HK\$30,000,000 to HK\$5,000,000. Accordingly, the consideration payable for acquisition of subsidiaries as at the balance sheet date will be reduced from HK\$29,000,000 to HK\$4,000,000 which has been fully settled in March 2005; and
- (b) Subsequent to the balance sheet date, the Group disposed of all its investments in China Gas for a total consideration of HK\$23,326,000.

## 3. UNAUDITED INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2005

Set out below is the unaudited consolidated financial statements of the Group for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in the previous year extracted from the unaudited interim report of the Group for the six months ended 30 June 2005:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2005*

	NOTES	Six months ended	
		30.6.2005 HK\$'000 (unaudited)	30.6.2004 HK\$'000 (unaudited)
Revenue	4	31,134	6,888
Cost of sales		<u>(22,348)</u>	<u>(3,261)</u>
Gross profit		8,786	3,627
Other operating income		53	–
Fair value gain of investment properties	10	37,380	–
Net unrealised holding losses on other investments		–	(181)
Selling and distribution costs		–	(6)
Administrative expenses		(5,300)	(2,763)
Amortisation of goodwill		<u>–</u>	<u>(645)</u>
Profit from operations	5	40,919	32
Finance costs	6	<u>(2,226)</u>	<u>(1,382)</u>
Profit (loss) before taxation		38,693	(1,350)
Income tax expense	7	<u>–</u>	<u>–</u>
Profit (loss) for the period		<u><u>38,693</u></u>	<u><u>(1,350)</u></u>
Attributable to:			
Equity holders of the parent		38,877	(1,447)
Minority interest		<u>(184)</u>	<u>97</u>
		<u><u>38,693</u></u>	<u><u>(1,350)</u></u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings (loss) per share – basic	8	<u><u>16.3</u></u>	<u><u>(0.7)</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	NOTES	30.6.2005 HK\$'000 (unaudited)	31.12.2004 HK\$'000 (audited and restated)
<b>Non-Current Assets</b>			
Property, plant and equipment		4,731	4,796
Land lease prepayment		3,473	3,510
Investment properties	10	303,380	266,000
Investments in securities		–	3,000
Available-for-sales investments		3,000	–
		314,584	277,306
<b>Current Assets</b>			
Inventories		316	227
Investments in securities		–	19,214
Financial assets at fair value through profit or loss		48	–
Trade and other receivables	11	3,447	1,342
Prepayments and deposits		1,132	1,389
Bank balances and cash		11,221	4,080
		16,164	26,252
<b>Current Liabilities</b>			
Trade and other payables	12	7,741	9,986
Consideration payable for acquisition of subsidiaries	13	–	4,000
Amounts due to directors		–	3,268
Amount due to a minority shareholder		6,548	3,583
Rental deposits		3,286	3,241
Taxation		14,687	14,687
Bank and other borrowings		125,443	130,443
		157,705	169,208
<b>Net Current Liabilities</b>		(141,541)	(142,956)
Total assets less current liabilities		173,043	134,350
<b>Non-current Liability</b>			
Deferred tax liability	14	657	657
		172,386	133,693
<b>Capital and Reserves</b>			
Share capital	15	1,192	1,192
Reserves		171,194	132,317
Equity attributable to equity holders of the parent		172,386	133,509
<b>Minority interest</b>		–	184
<b>Total Equity</b>		172,386	133,693

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Attributable to equity holders of the parent			Total	Minority interests	Total
	Share capital	Share premium	Deficit			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	828	329,303	(228,483)	101,648	–	101,648
Issue of ordinary shares	364	18,788	–	19,152	–	19,152
Acquisition of subsidiaries	–	–	–	–	832	832
(Loss) profit for the period	–	–	(1,447)	(1,447)	97	(1,350)
At 30 June 2004 and 1 July 2004	1,192	348,091	(229,930)	119,353	929	120,282
Profit (loss) for the period (restated)	–	–	14,156	14,156	(745)	13,411
At 31 December 2004 and 1 January 2005 (restated)	1,192	348,091	(215,774)	133,509	184	133,693
Profit (loss) for the period	–	–	38,877	38,877	(184)	38,693
At 30 June 2005	<u>1,192</u>	<u>348,091</u>	<u>(176,897)</u>	<u>172,386</u>	<u>–</u>	<u>172,386</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2005*

	<b>Six months ended</b>	
	<b>30.6.2005</b> <i>HK\$'000</i> (unaudited)	<b>30.6.2004</b> <i>HK\$'000</i> (unaudited)
Net cash from operating activities	13,361	982
Net cash used in investing activities	(4,185)	(3,816)
Net cash (used in) from financing activities		
Proceeds from issue of shares	–	19,152
Other financing cash flows	(2,035)	(4,201)
	(2,035)	14,951
Net increase in cash and cash equivalents	7,141	12,117
Cash and cash equivalents at beginning of the period	4,080	875
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>11,221</u>	<u>12,992</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the six months ended 30 June 2005*

**1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

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

In preparing the condensed financial statements, the directors have given careful consideration to the future liquidity of the Company and its subsidiaries (the “Group”) in light of the Group’s net current liabilities of HK\$141,541,000 at 30 June 2005. The directors are satisfied with the long term loan finance obtained subsequent to the balance sheet date, the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and financial assets at fair value through profit or loss. The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2004 except as described below.

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

**Presentation of financial statements**

The adoption of HKAS 1 has affected the presentation of minority interests, which are now shown as equity. This change has been applied retrospectively (see Note 3 for the financial impact).

**Business Combinations**

In the current period, the Group has applied HKFRS 3 Business Combinations. The principal effects of the application of HKFRS 3 to the Group are summarised below:

**Goodwill**

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually/in the financial period in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. In accordance with the transitional provisions of HKFRS 3, the Group eliminated the carrying amount of goodwill by the related accumulated amortisation of HK\$820,000. This change has had no effect on the Group’s deficit as at 1 January 2005.

**Owner-occupied leasehold interest in land**

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

**Financial Instruments**

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the Group's financial statements. HKAS 39 generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

**Classification and measurement of financial assets and financial liabilities**

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

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably carried. Such equity investments are measured at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

This change has been applied prospectively and has no effect to the Group's deficits as at 1 January 2005, (See Note 3 for the financial impact).

**Investment properties**

In the current period, the Group has applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change has had no effect on the Group's deficit at 1 January 2005 as the Group had no investment property revaluation reserve at 1 January 2005.

**Deferred taxes related to investment properties**

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that will follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively (See Note 3 for the financial impact).

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

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK\$'000			As at 31 December 2004 (restated) HK\$'000		As at 1 January 2005 (restated) HK\$'000	
	HKAS 1 (Note 2)	HKAS 17 (Note 2)	HKAS INT 21 (Note 2)	HKAS INT 21 (Note 2)	HKAS 32 & HKAS 39	HKAS 39	HKAS 39
<b>Balance sheet</b>							
Property, plant and equipment	8,306	–	(3,510)	–	4,796	–	4,796
Land lease prepayment	–	–	3,510	–	3,510	–	3,510
Investments in securities	22,214	–	–	–	22,214	(22,214)	–
Available-for-sale investments	–	–	–	–	–	3,000	3,000
Financial assets at fair value through profit or loss	–	–	–	–	–	19,214	19,214
Deferred tax liability	(1,104)	–	–	447	(657)	–	(657)
Minority interest	(184)	184	–	–	–	–	–
Other assets and liabilities	103,830	–	–	–	103,830	–	103,830
Total effects on assets and liabilities	<u>133,062</u>	<u>184</u>	<u>–</u>	<u>447</u>	<u>133,693</u>	<u>–</u>	<u>133,693</u>
Share capital	1,192	–	–	–	1,192	–	1,192
Share premium	348,091	–	–	–	348,091	–	348,091
Deficit	(216,221)	–	–	447	(215,774)	–	(215,774)
Total effects on equity							
Equity holders of parent	133,062	–	–	447	133,509	–	133,509
Minority interest	–	184	–	–	184	–	184
	<u>133,062</u>	<u>184</u>	<u>–</u>	<u>447</u>	<u>133,693</u>	<u>–</u>	<u>133,693</u>

The HKICPA has issued the following standards and interpretations (“INT”) that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented:

HKAS 19 Amendments	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendments	Transition and Initial Recognition of Financial Assets and Financial Liabilities Cash Flow Hedge Accounting of Forecast Intragroup Transactions The Fair value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS – INT 4	Determining whether an Arrangement contains a Lease
HKFRS – INT 5	Rights to Interests arising from Decommissioning; Restoration and Environmental Rehabilitation Funds

#### 4. REVENUE AND SEGMENT INFORMATION

The Group's revenue and contribution to profit (loss) before taxation analysed by business segments are as follows:

##### BUSINESS SEGMENTS

*For the six months ended 30 June 2005*

	<b>Production and sales of fertilizers</b>	<b>Property investment</b>	<b>Investment holding</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>2,851</u>	<u>4,958</u>	<u>23,325</u>	<u>31,134</u>
Segment results	(645)	42,038	3,165	44,558
Unallocated other operating income				13
Unallocated corporate overheads				<u>(3,652)</u>
Profit from operations				40,919
Finance costs				<u>(2,226)</u>
Profit before taxation				<u><u>38,693</u></u>

*For the six months ended 30 June 2004*

	<b>Production and sales of fertilizers</b>	<b>Property investment</b>	<b>Investment holding</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>2,292</u>	<u>4,044</u>	<u>552</u>	<u>6,888</u>
Segment results	215	3,162	(303)	3,074
Amortisation of goodwill	(645)	-	-	(645)
Unallocated corporate overheads				<u>(2,397)</u>
Profit from operations				32
Finance costs				<u>(1,382)</u>
Loss before taxation				<u><u>(1,350)</u></u>

#### 5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging depreciation of HK\$250,000 (six months ended 30.6.2004: HK\$107,000) in respect of property, plant and equipment.

**6. FINANCE COSTS**

	Six months ended	
	30.6.2005	30.6.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank borrowings	2,147	1,199
Other loans wholly repayable within five years	5	110
Others	74	73
	<u>2,226</u>	<u>1,382</u>

**7. INCOME TAX EXPENSE**

No provision for Hong Kong Profits Tax has been made as the companies comprising the Group do not have any assessable profit or their assessable profits are wholly absorbed by tax losses brought forward for both periods.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary in the PRC is entitled to exemption from PRC enterprise income tax for the first two profitable years and will be entitled to a 50% relief from PRC enterprise income tax for the following three years.

**8. EARNINGS (LOSS) PER SHARE – BASIC**

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

	Six months ended	
	30.6.2005	30.6.2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Earnings</b>		
Earnings (loss) for the purposes of basic earnings (loss) per share	<u>38,877</u>	<u>(1,447)</u>
	<i>'000</i>	<i>'000</i>
<b>Number of shares</b>		
Number (weighted average number) of shares	<u>238,389</u>	<u>203,451</u>

The Company has no potential ordinary shares outstanding in both periods.

**9. DIVIDENDS**

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

**10. INVESTMENT PROPERTIES**

The Group's investment properties were fair-valued by the directors at 30 June 2005. The resulting increase in fair value of investment properties of HK\$37,380,000 has been recognised directly in the income statement.

**11. TRADE AND OTHER RECEIVABLES**

Trade receivables from tenants are due on presentation of invoices. The Group allows an average credit period of 30 days to other trade customers.

The following is an aged analysis of trade and other receivables of the Group at the balance sheet date:

	<b>30.6.2005</b> <i>HK\$'000</i>	<b>31.12.2004</b> <i>HK\$'000</i>
0 – 60 days	2,518	936
61 – 90 days	576	262
Over 90 days	353	144
	<u>3,447</u>	<u>1,342</u>

**12. TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade and other payables of the Group at the balance sheet date:

	<b>30.6.2005</b> <i>HK\$'000</i>	<b>31.12.2004</b> <i>HK\$'000</i>
0 – 60 days	550	1,480
61 – 90 days	238	102
Over 90 days	6,953	8,404
	<u>7,741</u>	<u>9,986</u>

**13. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES**

At 31 December 2004, there was an outstanding consideration for the acquisition of a 51% interest in Lucky Green Limited and its subsidiary, which was interest bearing at 1% per annum, and was settled during the current period.

**14. DEFERRED TAX LIABILITY**

	<b>Property, plant and equipment</b> <i>HK\$'000</i>	<b>Unrealised holding gain on other investments</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2005	662	1,373	(1,378)	657
(Credit) charged to income statement	(1)	(1,373)	1,374	–
At 30 June 2005	<u>661</u>	<u>–</u>	<u>(4)</u>	<u>657</u>



**15. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Nominal amount HK\$'000</b>
Ordinary shares of HK\$0.005 each		
Issued and fully paid:		
At 30 June 2005 and 31 December 2004	<u>238,389</u>	<u>1,192</u>

**16. PLEDGED ASSETS**

- (a) All the Group's investment properties and the issued shares of a subsidiary of the Company are pledged and the rental income in respect of the investment properties under operating leases are assigned to a bank against a bank loan granted to the Group.
- (b) Property, plant and equipment and land lease prepayment of HK\$7,044,000 (31.12.2004: HK\$6,795,000) are pledged against a bank loan granted to the Group.

**17. RELATED PARTY TRANSACTIONS AND BALANCES**

The amounts due to directors and a minority shareholder at the balance sheet date are disclosed in the balance sheet. The amounts are interest free, unsecured and repayable on demand.

During the period, a minority shareholder provides a guarantee, at no charge to the Group, to a bank for a bank loan of HK\$943,000 granted to a subsidiary.

**18. SUBSEQUENT EVENT**

- (a) In July 2005, the Group obtained two new 5-year term loans amounting to approximately HK\$131 million. The new term loans were partly utilised to pay off a bank loan of approximately HK\$125 million.
- (b) On 30 August 2005, the Group entered into a legally binding memorandum of understanding with the independent third parties, pursuant to which the Group intends to acquire in part or in whole of the issued share capital of a company incorporated in the British Virgin Islands. Details of this are set out in the Company's announcement dated 31 August 2005.
- (c) On 5 September 2005, the Group entered into a placing agreement with a placing agent for the placing of up to 47,600,000 placing shares at a placing price of HK\$0.50 per placing share to not less than six independent individuals or institutional investors, who are not connected persons of the Group. The completion of the placing took place on 22 September 2005. Details of this are set out in the Company's announcements dated 5 September 2005 and 22 September 2005.

#### **4. INDEBTEDNESS**

As at the close of business on 31 January 2006, being the latest practicable date for this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$251,031,000, comprising a secured bank loan of approximately HK\$129,262,000 and unsecured loans from the minority shareholders of subsidiaries of approximately HK\$121,769,000. The secured bank loans were secured by property and plant and investment properties of the Enlarged Group with a carrying amount of HK\$7,063,000 and HK\$318,600,000 respectively, and the rental income in respect of the investment properties under operating leases are assigned to the bank.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 31 January 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

#### **5. MATERIAL CHANGE**

Save for the mandatory unconditional cash offer made by Keenlead Holding Limited (“Keenlead”) as details are set out in the composite offer document of the Company and Keenlead dated 15 July 2005 and the revaluation increase on investment properties of HK\$37,380,000 from HK\$266,000,000 as valued on 31 December 2004 to HK\$303,380,000 as stated in the 2005 interim report, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2004, being the date to which the latest audited consolidated financial statements of the Group were made up.

#### **6. WORKING CAPITAL**

After taking into account the internally generated funds and available banking facilities of the Enlarged Group, the Directors are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirement.

**1. UNAUDITED PRO FORMA ASSETS AND LIABILITIES STATEMENT OF THE ENLARGED GROUP**

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of the Acquisition, assuming the transactions had been completed as at 30 June 2005, might have affected the financial position of the Group.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2005 extracted from the interim report of the Group for the six months ended 30 June 2005 and that of the Keycharm Group as at 31 December 2005 extracted from the Accountants' Report set out in Appendix III after making certain proforma adjustments resulting from the Acquisition.

The unaudited pro forma statement of assets and liabilities is prepared to provide financial information on the Enlarged Group as a result of completion of the Acquisition. As it is prepared for illustrative purpose only, it may not purport to represent what the assets and liabilities of the Enlarged Group shall be on the actual completion of the Acquisition.

For the purpose of presenting the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the audited balance sheet as at 31 December 2005 of the Keycharm Group is translated at the exchange rate of HK\$1 = RMB1.0403.

	The Group HK\$'000	Keycharm Group HK\$'000	Total HK\$'000	Adjustments HK\$'000	Notes	Enlarged Group HK\$'000
Non-current assets						
Property, plant and equipment	4,731	1,524	6,255			6,255
Goodwill	–	–	–	3,099	1	3,099
Prepaid lease payments	3,473	26,729	30,202			30,202
Investment properties	303,380	–	303,380			303,380
Available-for-sales investments	3,000	–	3,000			3,000
Project development costs	–	9,613	9,613			9,613
Prepayments	–	7,171	7,171			7,171
	<u>314,584</u>	<u>45,037</u>	<u>359,621</u>	<u>3,099</u>		<u>362,720</u>
Current assets						
Inventories	316	–	316			316
Financial assets at fair value through profit or loss	48	–	48			48
Amount due from a former shareholder of a subsidiary	–	28,742	28,742	(28,742)	2	–
Amount due from a minority shareholder	–	28,742	28,742	(28,742)	2	–
Trade and other receivables	3,447	199	3,646			3,646
Prepayments and deposits	1,132	–	1,132			1,132
Prepaid lease payments	–	607	607			607
Bank balances and cash	11,221	27,948	39,169	(1,345)	2, 3, 5	37,824
	<u>16,164</u>	<u>86,238</u>	<u>102,402</u>	<u>(58,829)</u>		<u>43,573</u>
Current liabilities						
Trade and other payables	7,741	209	7,950			7,950
Amounts due to minority shareholders	6,548	28,838	35,386	27,786	3, 4	63,172
Amount due to a shareholder	–	101	101	(101)	4	–
Loans from shareholders	–	86,514	86,514	(86,514)	4, 5	–
Rental deposits	3,286	–	3,286			3,286
Taxation	14,687	–	14,687			14,687
Bank and other borrowings	125,443	–	125,443			125,443
	<u>157,705</u>	<u>115,662</u>	<u>273,367</u>	<u>(58,829)</u>		<u>214,538</u>
Net current liabilities	<u>(141,541)</u>	<u>(29,424)</u>	<u>(170,965)</u>	<u>–</u>		<u>(170,965)</u>
Non-current liability						
Deferred tax liability	<u>657</u>	<u>–</u>	<u>657</u>	<u>–</u>		<u>657</u>
Total net assets	<u><u>172,386</u></u>	<u><u>15,613</u></u>	<u><u>187,999</u></u>	<u><u>3,099</u></u>		<u><u>191,098</u></u>

*Notes:*

1. To record the goodwill arising on the acquisition of the 51% interest in the Keycharm Group of RMB1 and part of the shareholders' loan of RMB61,200,000 due by Keycharm to the shareholders of Keycharm (before the completion of the Acquisition), for a total consideration of RMB61,200,001 (HK\$58,846,000). The fair value of the Keycharm Group is determined as its net deficit of HK\$3,099,000 as at 31 December 2005 assuming the carrying amounts of the Keycharm Group approximate to its fair value.
2. To record the settlements of the amounts due from a former shareholder of Tiacang Sinochem, a subsidiary of Keycharm and a minority shareholder of Tiacang Sinochem, a subsidiary of Keycharm. The Acquisition will not be completed if these amounts have not been settled.
3. To record the Group's settlement of the amount due to a minority shareholder of Tiacang Sinochem, a subsidiary of Keycharm, of RMB30,000,000 (HK\$28,800,000). The amount was paid by the Group on behalf of the minority shareholder of Keycharm upon signing of the Formal Agreement dated 27 February 2006 entered into between the Group and the minority shareholders of Keycharm who were the shareholders of Keycharm before the completion of Acquisition.
4. To reclassify loans from shareholders and amount due to a shareholder to amounts due to minority shareholders upon completion of the Acquisition.
5. To record the settlement of the total consideration of RMB61,200,001 (HK\$58,800,000) for the acquisition of 51% interest in the Keycharm Group and an outstanding amount of RMB61,200,000 due by Keycharm to its shareholders (before the completion of the Acquisition) in accordance with the Formal Agreement.

**2. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF GREATER CHINA HOLDINGS LIMITED****Deloitte.****德勤****TO THE DIRECTORS OF GREATER CHINA HOLDINGS LIMITED****大中華實業控股有限公司***(Incorporated in Bermuda with limited liability)*

We report on the unaudited pro forma statement of assets and liabilities (the “Statement”) of the Greater China Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) and Keycharm Investments Limited and its subsidiary (together with the Group hereinafter referred to as the “Enlarged Group”) which has been prepared by the directors for illustrative purposes only, to provide information about how the acquisition of 51% interest in Keycharm Investments Limited and its subsidiary (the “Acquisition”) might have affected the assets and liabilities of the Group presented, for the inclusion in Appendix III of the circular date 7 April 2006 (the “Circular”). The basis of preparation of unaudited pro forma financial information is set out on page 81 to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

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

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

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

The Statement is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place on the future and may not be indicative of the financial position of the Enlarged Group as at 30 June 2005 or at any future date.

**Opinion**

In our opinion:

- a) the Statement has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

7 April 2006



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

CHARTERED SURVEYORS

PLANT AND MACHINERY VALUERS

BUSINESS &amp; FINANCIAL SERVICES VALUERS

*The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the HKIS Valuation Standards on Properties, First Edition, 2005 (“HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”) and entitles the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer.*

27th Floor  
Li Dong Building  
No. 9 Li Yuen Street East  
Central  
Hong Kong

7 April 2006

The Directors  
Greater China Holdings Limited  
Room 1301  
1 Lyndhurst Tower  
No. 1 Lyndhurst Terrace  
Central  
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of Greater China Holdings Limited (hereinafter referred to as the “Company”) to us to value a property (hereinafter referred to as the “subject property”) in which the Company or its subsidiaries has intention to acquire in the People’s Republic of China (hereinafter referred to as the “PRC” or “China”), we confirm that we have conducted inspection, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value of the subject property as at 10 January 2006 (hereinafter referred to as the “date of valuation”) for the purpose of incorporation in this circular for the Company’s shareholders’ reference.

This summary report (including this letter and the attached valuation certificate) forms part of our detailed valuation report of the subject property issued as at today’s date. We understand that the use of our report (regardless of the format of presentation) would form part of the Company’s business due diligence to the subject property and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching business decisions regarding the subject property.



**BASIS OF VALUATION AND ASSUMPTIONS**

Our valuation of the subject property is on market value basis and the term “Market Value” is defined by the HKIS Standards as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Our valuation has been made on the assumption, that

1. the legally interested party in the subject property sells the subject property in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the subject property;
2. the legally interested party in the subject property has free and uninterrupted rights to use or assign the property interest for the whole of the unexpired terms as granted and any premiums payable have already been fully paid; and
3. the subject property can be freely disposed and transferred free of all encumbrances at the date of valuation for its existing or alternative uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should this not be the case, it will have adverse impact to the value as reported.

Based on the information made available to us, the subject property is currently under 五通一平 Five Accesses and Leveling condition i.e. with the subject property being leveled and services of electricity, water, tele-communication, drainage and road connected to the periphery of the subject property. As most of the services are unexposed or buried underground, we are unable to verify the relevant information, but in our valuation, we have valued the subject property in accordance with this information.

In valuing the subject property, we have adopted the comparable sales method of the Market Approach (also called sales comparison approach) on the assumption that the subject property is sold with the benefit of vacant possession as at the date of valuation. The comparable sales method considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

**MATTERS THAT MIGHT AFFECT THE VALUE REPORTED**

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the subject property. Unless otherwise stated, it is assumed that the subject property is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

We are unable to identify any adverse news against the subject property which may affect the reported value in our report as at the Latest Practicable Date mentioned in this document. Thus, we are not in the position to report and comment on its impact (if any) to the subject property. However, should it be established subsequently that such news did exist at the date of valuation, we reserve the right to adjust the value reported herein.

## ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the existing legally interested party in the subject property has free and uninterrupted rights to assign, to mortgage and to let the property interests (in this instance, an absolute title) for the whole of the unexpired terms as granted and any premiums payable have already been paid in full. In the course of valuation, we have been provided with copies of the title documents regarding the subject property. However, we have not inspected the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us.

Due to inherent defects in the land registration system of China, we are unable to inspect the original documents from the relevant land registration departments to verify the existing titles of the subject property or any material encumbrances that might be attached to the subject property. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the subject property. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the PRC legal opinion as provided by the Company with regard to the existing legally interested party in the subject property as disclosed in our report. We are given to understand that the PRC legal opinion was prepared by a qualified PRC legal adviser, Chen & Co. dated 4 April 2006. No responsibility or liability is assumed in relation to those legal opinions.

The current status of the subject property regarding major approvals, consents or licences required in the PRC is set out as follows:

	<b>Document/Approval</b>		
	<b>Contract for the Transfer of State-owned Land Use Rights or equivalent</b>	<b>State-owned Land Use Rights Certificate</b>	<b>Realty Title Certificate/Building Ownership Certificate</b>
<b>Enterprise Legal Licence Person Business</b>	Yes	Yes	N/A

**INSPECTIONS AND INVESTIGATIONS OF THE SUBJECT PROPERTY**

We have inspected the subject property in respect of which we have been provided with such information as we have requested for the purpose of our valuation. We have not inspected those parts of the property which were covered or unexposed and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination has been made, but in the course of our inspections we did not note any serious defects in the subject property inspected. We are not, however, able to report that the subject property is free from rot, insect, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the subject property, and that the inspection and the use of our report do not purport to be a building survey of the subject property. If the management of the Company is proposing to purchase the subject property and wants to satisfy them as to the condition of it, then the management of the Company should obtain a land surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas of the subject property, but have assumed that the areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries and the exact location of the subject property. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and location of the subject property that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the subject property should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the subject property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the subject property. We have not carried out any investigation into past or present uses, either of the subject property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the subject property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the subject property or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

**SOURCES OF INFORMATION AND ITS VERIFICATION**

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, easements, title, tenure, occupation, site areas and all other relevant matters.

Unless otherwise stated, we have not carried out a valuation on a development basis and the study of possible alternative development options and the related economics do not come within the scope of our report.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our report.

Unless otherwise stated, all monetary amounts are in Hong Kong dollars. In valuing the subject property, the adopted exchange rate was the prevailing rate as at the date of valuation, being HK\$1.00 per RMB1.04 and no significant fluctuation in exchange rate has been found between that date and the date of our report.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. Our analysis and valuation are based upon full disclosure between us and the Company of material and latent facts that may affect the valuation. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

**LIMITING CONDITIONS OF THIS SUMMARY REPORT**

Our opinion of value of the subject property in the attached valuation certificate is valid only for the stated purpose and only for the date of valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise the attached valuation certificate to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in a circular to the Company's shareholders.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

## **STATEMENTS**

Our report is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the HKIS Standards. The valuation has been undertaken by valuer, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorization and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the subject property, the Company or the value reported.

The valuation certificate is attached.

Yours faithfully,  
For and on behalf of  
**LCH (Asia-Pacific) Surveyors Limited**

**Joseph Ho Chin Choi** *RPS (GP)*  
*Managing Director*

Contributing Valuer:  
Terry Fung Chi Hang *B.Sc.*

*Note:*

Mr. Joseph Ho Chin Choi has been conducting assets valuation (including real estate properties) and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Finland, Canada and the United States of America for various purposes since 1988. He has more than 17 years of experience in valuing real estate properties in mainland China. He is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

## VALUATION CERTIFICATE

Property to be acquired by the Company or its subsidiaries under long-term title certificate in the PRC and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Market Value at its existing state as at 10 January 2006 HK\$
<p>A parcel of vacant land known as Lot No. 507-050-004-06 and situated at the southern part of Gang Qu Wei San Road, western part of Jing Er Road and northern part of Bei Huan Road Fuqiao Town Taicang Port Development Zone Taicang City Jiangsu Province The People's Republic of China</p>	<p>The property comprises a parcel of vacant land in a rectangular shape and having a site area of approximately 94,793.5 sq.m. (<i>see Notes 1 to 3 below</i>)</p> <p>We are given to understand that the property forms part of a parcel of land having a site area of approximately 417,467.9 sq. m. and there did not have any concrete development plan on the property.</p> <p>We noted that as at the date of valuation there did not have any construction activities on the property.</p> <p>According to the information provided to us, the property is subject to a right to use the land for a term of 50 years from 1 January 2001 to 31 December 2050 for industry and warehouse composite usages.</p>	<p>At the time of our inspection, we noticed that the property was a vacant land with some temporary structures erected thereon.</p>	<p>HK\$27,350,000 (100% interest)</p>

*Notes:*

1. The right to possess the land is held by the State and the right to use the land having a site area of approximately 2,277,518 sq.m. (in which the property forms part) was granted to 中遠國際城開發有限公司 (Zhong Yuan International City Development Co., Ltd.) by a Contract for the Grant of State-owned Land Use Rights dated 23 December 1997 and known as Tai Di Chu He (97) Zi Di 56 Hao (太地出合(97)字第56號) for a term of 50 years, commencing from 1 January 2001.
2. We noted that the right to use portion of the land as mentioned in Note 1 above and with site area of 495,134 sq.m. was transferred from 中遠國際城開發有限公司 (Zhong Yuan International City Development Co., Ltd.) to 江蘇太倉港開發建設股份有限公司 (Jiangsu Taicang Port Development Construction Stock Company Limited) pursuant to an Approval Letter No. 440 of 2001 issued by the Land Resources Bureau of Taicang City on 31 October 2001 and by a State-owned Land Use Rights Certificate known as Tai Guo Yong (2001) Di 07050004-1 Hao (太國用(2001)第07050004-1號) issued by the People's Government of Taicang City on 1 November 2001 for a term until 31 December 2050.
3. The right to use the land of the property having a site area of approximately 94,793.50 sq.m. was further transferred from 江蘇太倉港開發建設股份有限公司 (Jiangsu Taicang Port Development Construction Stock Company Limited) to 太倉中化國際興業石化開發建設有限公司 (Taicang Sinochem International Xingye Petrochemical Development Company Limited and hereinafter referred to as the "JV Company") by a Contract for the Transfer of State-owned Land Use Rights dated 23 December 2005 at a consideration of RMB28,438,050. The rights and obligations of the first grantee as mentioned in Note 1 above was then transferred to the JV Company accordingly.
4. Pursuant to a State-owned Land Use Rights Certificate known as Tai Guo Yong (2005) Di 507000029 Hao (太國用(2005)第507000029號) issued by the People's Government of Taicang City on 23 December 2005, the legally interested party in the property was the JV Company with a term of land use till 31 December 2050 for industry and warehouse usages.
5. According to an Enterprise Legal Person Business License (企業法人營業執照) dated 19 August 2005, the JV Company is a Sino-foreign equity joint venture which is established in China for a term of 50 years from 12 August 2004 to 11 August 2054.
6. According to the legal opinion as prepared by the Company's PRC legal adviser, Chen & Co., dated 4 April 2006 the following opinions are noted:
  - (i) the JV Company is a Sino-foreign equity joint venture established in the PRC on 19 August 2005 and with a valid Enterprise Legal Person Business License for operation from 12 August 2004 to 11 August 2054;
  - (ii) the JV Company was 14.29% owned by 江蘇省太倉港港口開發建設投資公司 (Jiangsu Taicang Port Development Construction Investment Company Limited) and 85.71% owned by Keycharm Investments Limited (基創投資有限公司). The risk and profit sharing bases are based on the capital contribution ratio and the relevant joint venture agreement entered between the parties;
  - (iii) the JV Company has obtained the right to use the land legally by way of assignment and is the legally interested party in the property. Based on that and subject to the relevant rules and regulations as well as the terms and conditions as stipulated in the Contract for the Grant of State-owned Land Use Rights entered between the State and the first grantee of the land use rights, the JV Company has the right to assign the land use rights to the market.
  - (iv) There are some flaw on the origin of the land use rights that assigned to the JV Company, however, such flaw will not affect the transferability of the land use rights to the JV Company after the issuance of the said certificate to the JV Company as mentioned in Note 4 above.



## 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 jointly and severally accept responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries and that to the best of their knowledge and belief there are no other facts the omission of which would made any statement therein misleading.

## 2. DISCLOSURE OF INTERESTS

### Interests of Directors in the Company

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### Long position in Shares

Name	Nature of Interest	Number of Shares	Percentage of shareholding
Ms. Ma Xiaoling	Corporate interests (Note)	120,212,256	42.03%

*Note:* Ms. Ma Xiaoling is the beneficial owner of the entire issued share capital of Keenlead Holdings Limited, which owned 120,212,256 Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have 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 he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

### Interests of substantial Shareholders in the Company

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital:

Name of Shareholder	Note (2)	Number of Shares	Percentage of shareholding
Keenlead Holdings Limited	1	120,212,256	42.03%
Ms. Ma Xiaoling	1	120,212,256	42.03%
China Main Investment (H.K.) Company Limited	2, 3	32,000,000	11.19%
Centre Mark Development Limited	2, 3	32,000,000	11.19%
Sino Elite International Limited	2, 3	32,000,000	11.19%
China Main Group Company Limited	2, 3	32,000,000	11.19%
Mr Chen Dacheng	2, 3	32,000,000	11.19%
Shenzhen Venture Capital (BVI) Company Limited	2, 3	32,000,000	11.19%
Mr. Mei Jian	2, 3	32,000,000	11.19%
Mr. Zhang Minlong	2, 3	32,000,000	11.19%

*Notes:*

- The entire issued share capital of Keenlead Holdings Limited is wholly and beneficially owned by Ms. Ma Xiaoling.
- China Main Investment (H.K.) Company Limited (“China Main”) is owned as to 60% by Centre Mark Development Limited and as to 40% by Sino Elite International Limited. Centre Mark Development Limited is owned as to 99.99% by Mr. Chen Dacheng and as to 0.01% by China Main Group Company Limited. Sino Elite International Limited is owned as to 99.99% by China Main Group Company Limited and as to 0.01% by Mr. Pai Chin Ming. China Main Group Company Limited is owned as to 99% by Mr. Chen Dacheng and as to 1% by Mr. Pai Chin Ming.
- On 14 April 2003, Shenzhen Venture Capital (BVI) Company Limited (“Shenzhen Venture Capital”) reported that it has a security interest in 32,000,000 shares. Shenzhen Venture Capital is owned as to 50% by Mr. Mei Jian and 50% by Mr. Zhang Minlong.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital.

#### **Interests in contract or arrangement**

As at the Latest Practicable Date, none of the Directors is materially interested in a contract or an arrangement subsisting which is significant in relation to the business of the Group.

#### **Interests in assets**

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up.

#### **Service contracts**

There is no existing or proposed service contract between any of the Directors and the Company or any of its members (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

#### **Interests in other competing business**

Each of the Directors has confirmed that he/she and their respective associates (as defined under the Listing Rules) do not have any interests in a business apart from the Group's business which directly competes with and will have material adverse impact on the Group.

### **3. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

### **4. EXPERTS AND CONSENTS**

The qualifications of the experts who have given opinion in this circular are as follows:

<b>Name</b>	<b>Qualification</b>
Deloitte Touche Tohmatsu	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited	Chartered Surveyors

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and LCH (Asia-Pacific) Surveyors Limited has no shareholding 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 and has no direct or indirect interests in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2004, being the date to which the latest published audited accounts of the Company were made up.

Each of Deloitte Touche Tohmatsu and LCH (Asia-Pacific) Surveyors Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

## 5. MATERIAL CONTRACTS

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

- (a) On 26 March 2004, the Company entered into a sale and purchase agreement pursuant to which the Company agreed to sell the 100% equity interest and the shareholder's loan in China Faith Limited to Go Wisdom Limited at a total consideration of HK\$28,012,353.55. On 19 April 2004, the Company entered into a termination agreement with Go Wisdom Limited to terminate the aforesaid transaction. A summary of the terms of the sale and purchase agreement and the termination agreement is set out in an announcement of the Company dated 22 April 2004.
- (b) On 28 April 2004, the Company entered into a subscription agreement with Mr. Kan Che Kin, Billy Albert for the subscription of 39,700,000 Shares at a subscription price of HK\$0.2898 per Share. A summary of the terms of the subscription agreement is set out in an announcement of the Company dated 30 April 2004.
- (c) On 23 March 2005, a supplemental agreement was entered into among the Company, Mr. Xie Zhong and Ms. Xu Wei Xiu to revise the total consideration payable for the acquisition of Lucky Green Limited from HK\$30,000,000 as announced by the Company on 1 March 2004 to HK\$5,000,000. A summary of the terms of the supplemental agreement is set out in an announcement of the Company dated 23 March 2005.
- (d) On 5 September 2005, the Company entered into a placing agreement with Partners Capital Securities Limited for the placing of 47,600,000 new Shares at a placing price of HK\$0.50 per Share. A summary of the terms of the placing agreement is set out in an announcement of the Company dated 5 September 2005.
- (e) The MOU as supplemented by a supplemental memorandum of understanding dated 29 November 2005, details of which is set out in an announcement of the Company dated 29 November 2005.

**6. GENERAL**

- (a) The secretary and qualified accountant of the Company is Mr. Chan Sze Hon, CPA (Practising).
- (b) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The head office and principal place of business in Hong Kong is situated at Room 1301, 1 Lyndhurst Tower, 1 Lyndhurst Terrace, Central, Hong Kong.
- (c) The Hong Kong share registrar of the Company is Tengis Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the head office and principal place of business in Hong Kong at Room 1301, 1 Lyndhurst Tower, 1 Lyndhurst Terrace, Central, Hong Kong up to and including 14 days after the circular date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December, 2004;
- (c) the audited pro forma consolidated financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (d) the accountants' report of the Keycharm Group, the text of which is set out in Appendix I to this circular;
- (e) the valuation report, the text of which is set out in Appendix IV to this circular;
- (f) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;
- (g) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and
- (h) a circular of the Company in relation to the Acquisition dated 22 September 2005.