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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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Hai Xia Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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HAI XIA HOLDINGS LIMITED

海峽集團有限公司*

(Incorporated in Bermuda with limited liability)

**MAJOR TRANSACTION
FORMATION OF A COMPANY
TO INVEST IN NATURAL GAS PROJECTS
IN HUNAN PROVINCE, THE PRC
AND
PROPOSED CHANGE OF NAME**

Financial adviser to Hai Xia Holdings Limited



Somerley Limited

A notice convening a special general meeting of Hai Xia Holdings Limited to be held at Monaco Room, B1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 5th July, 2002 at 9:30 a.m. is set out on pages 45 to 46 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to Room 2601, 26th Floor, Island Place Tower, 510 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the special general meeting if you so wish.

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DEFINITIONS

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

“Acquisitions”	the proposed acquisitions of an aggregate of 60% registered capital of Beijing Xiangke Jiahua Oil & Gas Technology Co., Ltd. announced by the Company on 9th May, 2002
“Agreements”	the Investment Agreement and the Assignment Agreement
“Assignment Agreement”	an agreement dated 16th May, 2002 entered into between the Subsidiary and Hai Xia Finance in relation to the assignment of 7% shareholding in the Samoa Company from the Subsidiary to Hai Xia Finance
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Company”	Hai Xia Holdings Limited, a company incorporated in Bermuda with limited liability with its issued ordinary shares listed on the Stock Exchange
“Convertible Preference Shares”	Convertible Preference Shares I and Convertible Preference Shares II
“Convertible Preference Shares I”	the 7,298,571 convertible non-voting redeemable preference shares of nominal value HK\$1.00 each in the capital of the Company, convertible into a maximum of 56,142,853 Shares at a conversion price of HK\$0.13 per Share (subject to adjustment)
“Convertible Preference Shares II”	the 31,373,906 convertible non-voting redeemable preference shares of nominal value HK\$1.00 each in the capital of the Company, convertible into a maximum of 156,869,530 Shares at a conversion price of HK\$0.20 per Share (subject to adjustment)
“Director(s)”	the director(s) of the Company
“Greater China”	Greater China Sci-Tech Holdings Ltd., a company incorporated in Bermuda with limited liability, whose shares are listed on the Stock Exchange
“Group”	the Company and its subsidiaries
“Hai Xia Finance”	Hai Xia Finance Holdings Limited, a company incorporated in the British Virgin Islands which holds an option granted by Heng Fung, upon exercise of which, to acquire Shares or Convertible Preference Shares

DEFINITIONS

“Heng Fung”	Heng Fung Holdings Limited, a company incorporated in Hong Kong with limited liability with its issued shares listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKS Co”	Hong Kong Syndisome Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Shenzhen Nanshan
“Investment Agreement”	an investment agreement dated 13th May, 2002 entered into between the Subsidiary and HKS Co in relation to the formation of the Samoa Company to invest in natural gas projects in the PRC
“Latest Practicable Date”	4th June, 2002, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Shares”	new Shares to be issued pursuant to the Acquisitions
“Placing”	the proposed placing of 33,333,333 new Shares to Sino-Finance Asset Management Limited to raise net proceeds of approximately HK\$29 million announced by the Company on 9th May, 2002
“PRC”	the People’s Republic of China
“Samoa Company”	China Natural Gas Investment Group Limited, a company incorporated in Samoa with limited liability proposed to be formed by the Subsidiary, HKS Co and Hai Xia Finance to invest in natural gas projects in the PRC
“SGM”	the special general meeting of the Company to be held on 5th July, 2002 to consider and, if thought fit, to approve the Investment Agreement, the Assignment Agreement and the change of name
“Shares”	ordinary shares of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of Shares
“Shenzhen Nanshan”	Shenzhen Nanshan Power Station Co., Ltd., a company incorporated in the PRC with limited liability with its issued shares listed on the Shenzhen Stock Exchange
“Shenzhen Stock Exchange”	The Stock Exchange of Shenzhen, the PRC

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“Shenzhen Stock Exchange Listing Rules”	The Rules Governing the Listing of Securities on the Shenzhen Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	Hai Xia Finance Limited (formerly known as Mall 368.com Limited), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“%”	per cent.
“HK\$”	Hong Kong dollars

LETTER FROM THE BOARD



HAI XIA HOLDINGS LIMITED

海峽集團有限公司*

(Incorporated in Bermuda with limited liability)

Directors:

Mr. Li Xiaoyun (*Co-Chairman*)
Mr. Chan Heng Fai (*Co-Chairman and Managing Director*)
Ms. Chan Yoke Keow
Ms. Chan Sook Jin, Mary-ann
Mr. Fong Kwok Jen
Mr. Xu Ying
Mr. Liu Ming Hui
Mr. Wooldridge Mark Dean
Mr. Chan Tong Wan

Registered Office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business:

326 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

Independent Non-executive Directors:

Mr. Lee Ka Leung, Daniel
Mr. Wong Dor Luk, Peter
Mr. Da Roza Joao Paulo

6th June, 2002

*To the Shareholders and, for information only,
the holders of Convertible Preference Shares*

Dear Sir or Madam,

**MAJOR TRANSACTION
FORMATION OF A COMPANY
TO INVEST IN NATURAL GAS PROJECTS
IN HUNAN PROVINCE, THE PRC
AND
PROPOSED CHANGE OF NAME**

INTRODUCTION

The Directors announced on 16th May, 2002 that the Group has entered into agreements with HKS Co and Hai Xia Finance to form the Samoa Company. The Group will invest a net amount of HK\$57.6 million for a 48% interest in the Samoa Company.

The transaction constitutes a major transaction of the Company under the Listing Rules. Pursuant to Rule 14.10 of the Listing Rules, the Agreements are conditional on approval of the Shareholders.

* For identification purpose only

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In addition, the Directors announced on 22nd May, 2002 that they propose to change the name of the Company to China Gas Holdings Limited and adopt a Chinese translation of the Company's name of 「中國燃氣控股有限公司」 for identification purpose.

The purpose of this circular is to give you further information in relation to the Investment Agreement and the Assignment Agreement, the change of name, certain financial information of the Group and to give you notice of the SGM to be convened for the purpose of considering and, if thought fit, approving the Investment Agreement, the Assignment Agreement and the change of name.

THE INVESTMENT AGREEMENT

Contracting Parties	:	the Subsidiary and HKS Co
Shareholding in the Samoa Company	:	The Samoa Company will be owned as to 55% by the Subsidiary (of which 7% will be assigned to Hai Xia Finance pursuant to the Assignment Agreement) and 45% by HKS Co upon completion of formation of the Samoa Company
Total Investments	:	The proposed total investment in the Samoa Company is approximately HK\$120 million which will be funded by the Subsidiary and HKS Co in proportion to the shareholdings in the Samoa Company. Of the amount to be funded by the Subsidiary pursuant to the Investment Agreement, HK\$8.4 million will be contributed by Hai Xia Finance pursuant to the Assignment Agreement

Under the Investment Agreement, there is no restriction against any assignment and it is not a requirement to obtain the prior written consent or permission of HKS Co for the Subsidiary to assign its interest in the Samoa Company to a third party, including Hai Xia Finance.

Conditions for injection of investment funds to the Samoa Company are set out below:–

- (1) The Subsidiary undertakes to conclude sino-foreign equity joint venture contracts with appropriate PRC contracting parties in Changsha, Zhuzhou and Xiangtan as soon as possible, with at least one sino-foreign joint venture contract to be signed before the first tranche of investment funds is injected to the Samoa Company by the Subsidiary and HKS Co;
- (2) A due diligence exercise on each of the proposed projects should be carried out by the appropriate working team, with representatives from both the Subsidiary and HKS Co, who will verify all financial data and investment amount in writing. Satisfaction of the conditions of any injection of investment funds and related details, such as status and progress of the investment projects, will only be effective upon acknowledgement by both the Subsidiary and HKS Co; and
- (3) If any investment projects are not feasible due to legal or policy reasons, the Subsidiary should consult with HKS Co for any practicable solution, including but not limited to adjustment of the amount of the injected funds or ratio. In the event that none of the investment projects could be implemented, both the Subsidiary and HKS Co are entitled to rescind the Investment Agreement and not to take part in the proposed investment, without liability whatsoever to the other party.

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In addition to the conditions of injection of investment funds to the Samoa Company, the natural gas projects in Changsha, Zhuzhou, Xiangtan and other areas mutually agreed upon by the Group and HKS Co in the PRC contemplated under this Investment Agreement will only become effective upon satisfaction of all of the following conditions:–

- (a) the approval by the board of directors of the Subsidiary, the Company, HKS Co and Shenzhen Nanshan, respectively, of the proposed HK\$120 million investment as a whole;
- (b) the approval by the shareholders of the Subsidiary, the Company, HKS Co and Shenzhen Nanshan, respectively, in general meeting of the proposed HK\$120 million investment as a whole;
- (c) compliance of all applicable rules and regulations by the Company and Shenzhen Nanshan, including but not limited to the Listing Rules and the Shenzhen Stock Exchange Listing Rules, and if applicable, the Company will not be treated by the Stock Exchange as a new applicant for listing of its Shares on the Stock Exchange in any respect due to the proposed investment; and
- (d) the grant of all necessary approvals from the relevant government authorities of the proposed natural gas projects, including but not limited to the 20-year monopoly right, the initial installation right and right to charges.

Shareholders should note that negotiations in relation to the joint venture contracts have not been concluded and such projects may or may not proceed.

Exclusivity

Within a reasonable time (not less than two months) after the signing of the Investment Agreement, neither party or their respective subsidiaries or connected persons as defined in the Listing Rules/Shenzhen Stock Exchange Listing Rules shall directly or indirectly enter into any memorandum of understanding, agreements or negotiations with third parties in relation to the investment or operation of natural gas projects in Hunan Province in the PRC.

THE ASSIGNMENT AGREEMENT

Parties: The Subsidiary
Hai Xia Finance

Reference is made to the announcement jointly made by the Company and Heng Fung on 11th April, 2002. Heng Fung has the right to sell to Hai Xia Finance, on or before 26th July, 2002, an aggregate of 380,000,000 Shares representing approximately 40.7% of the issued ordinary share capital of the Company as at the Latest Practicable Date. Upon exercise of such option, Heng Fung has the right to sell any combination of Shares and Convertible Preference Shares to Hai Xia Finance, upon conversion of which, will result in an aggregate of 380,000,000 Shares to be held by Hai Xia Finance. Save for the above and the co-operative agreement mentioned in paragraphs headed “Prospects” below, Hai Xia Finance is independent of and not connected with the Company, the chief executive, directors and substantial shareholders of the Company, its subsidiaries or their respective associates. Hai Xia Finance is wholly owned by Hai Xia Travel Agency which is independent of and not connected with the Company, the chief executive, directors and substantial shareholders of the Company, its subsidiaries or their respective associates.

LETTER FROM THE BOARD

The Assignment Agreement

Pursuant to the Assignment Agreement, the Subsidiary will assign 7% of its shareholding in the Samoa Company to Hai Xia Finance upon formation of the Samoa Company. The total investment amount of the Samoa Company of HK\$120 million will be funded by the Subsidiary, HKS Co and Hai Xia Finance in proportion to the shareholdings in the Samoa Company. Hai Xia Finance undertakes to comply with all the terms of the Investment Agreement.

The Investment Agreement and Assignment Agreement are inter-conditional. The entering into the Assignment Agreement facilitates the co-investment by Hai Xia Finance as a strategic partner in the development of the future projects of the Samoa Company.

INFORMATION ON THE SAMOA COMPANY

Pursuant to the Investment Agreement and the Assignment Agreement, the Samoa Company will be owned as to 48% by the Subsidiary, 45% by HKS Co and 7% by Hai Xia Finance upon completion of formation of the Samoa Company. The total investment amount of the Samoa Company of HK\$120 million will be funded as to HK\$57.6 million by the Subsidiary, as to HK\$54 million by HKS Co and as to HK\$8.4 million by Hai Xia Finance. The composition of the board of directors of the Samoa Company has not been stipulated in the Investment Agreement. The board of directors of the Samoa Company will be formed upon completion of formation of the Samoa Company.

The Samoa Company will be principally engaged in investing in natural gas projects in Changsha, Zhuzhou, Xiangtan and other areas mutually agreed by the Group and HKS Co in the PRC. It will cooperate with appropriate PRC parties to form sino-foreign equity joint venture companies. The joint venture companies will utilise the natural gas resources located in those areas and construct natural gas transport facilities including city gas pipeline to provide clean natural gas fuel to citizens, public welfare and industrial customers.

The Samoa Company, upon formation, will become an associated company of the Group. Accordingly, the Group will account for the earnings, assets and liabilities of the Samoa Company by way of equity accounting. Upon injection of investment amount of HK\$57.6 million funded by the Subsidiary, the net assets of the Group will be increased by approximately the same amount assuming such amount is funded by equity fund raising.

INFORMATION ON HKS CO

HKS Co is a company incorporated in Hong Kong in 1982 principally engaged in import and export trading and investment holding. HKS Co is an indirect wholly-owned subsidiary of Shenzhen Nanshan and will be able to utilise the expertise of Shenzhen Nanshan in the energy industry.

Shenzhen Nanshan is a company listed on the Shenzhen Stock Exchange and is an electric power producing and operating enterprise under the classification of fundamental energy industry in the PRC. By the year 2001, Shenzhen Nanshan has in operation gas turbine generating units with installed capacity totaling 528 MW, representing approximately 20% of the total installed power generating capacity of Shenzhen and approximately 37% of installed capacity of peak regulatory power plants in Shenzhen. After years of development, Shenzhen Nanshan has become one of the largest gas turbine generating enterprises in the PRC and one of the backbone peak regulatory power plants in Shenzhen.

LETTER FROM THE BOARD

Save for its proposed interest in the Samoa Company, HKS Co and Shenzhen Nanshan and its controlling shareholder are independent of and not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or the associates of any of them as defined under the Listing Rules.

INFORMATION ON HAI XIA FINANCE

Hai Xia Finance Holdings Limited is a company incorporated in the British Virgin Islands wholly owned by Hai Xia Travel Agency. Hai Xia Travel Agency is principally engaged in providing tourist and investment services to Taiwanese traveling in the PRC and helps to cultivate cross-strait economic, technological and cultural exchange. Approved by National Tourism Administration under the State Council of the PRC in 1992, Hai Xia Travel Agency became an international travel agency with over 20 offices in the PRC.

REASONS FOR FORMATION OF THE SAMOA COMPANY

The Group is principally engaged in the retailing of fashion apparel and accessories, property investment and financial, securities and investments. The Directors consider the energy sector an attractive industry to invest and are of the view that as economic activity in the Greater China region increases, the demand for energy will continue to escalate.

The energy sector has not previously been one of the principal activities of the Group. As announced by the Company on 9th May, 2002, the Group entered into agreements to acquire interest in a sino-foreign equity joint venture established in the PRC to invest in the natural gas industry. Further to this diversification of business, the Directors consider the formation of the Samoa Company is a good opportunity for the Company to invest in natural gas business in Hunan Province in the PRC. Changsha is the capital of the Hunan Province and the Directors believe the growing affluence in the region provides good potential for business growth. By investing in the Samoa Company together with a partner with extensive experience in energy sector, the Group would be able to take advantage of opportunities in the PRC energy sector, in particular, the natural gas industry.

Based on the investment value of HK\$120 million and a 48% shareholding interest in the Samoa Company, the Subsidiary will inject HK\$57.6 million in cash to the Samoa Company, which will be funded from the internal resources of the Group and/or from fund raising activities including private placing and project financing through the assistance of Hai Xia Finance. The timing for the injection of funds depends on the progress of the due diligence exercise on the Changsha natural gas investment projects and is subject to satisfaction of all the conditions of the Investment Agreement. The Company has no immediate plan for fund raising activities. However, the Directors will consider the needs for fund raising when the timing for the injection of funds crystallises.

BUSINESS REVIEW AND FUTURE PROSPECTS OF THE GROUP

Business Review

The Group recorded a turnover of HK\$721,000 for the six months ended 30th September, 2001 representing a decrease of 76.1% from HK\$3,019,000 for the previous corresponding period. The decrease in turnover was mainly due to the decrease in the retailing of fashion apparel despite an increase in rental income from investment properties and properties held for development. The loss attributable to shareholders for the six months ended 30th September, 2001 was HK\$1,069,000 a slight decrease of 1.5% as compared to HK\$1,085,000 for the same period in 2000.

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The 11th September terrorist attack and the war against terrorism created further uncertainties on the property market in Hong Kong. As a result, the development of the sites in relation to the properties held for development has been deferred.

Prospects

In view of the uncertain economic conditions, the management will continue to follow its prudent management policies and take steps to improve the Group's business and will explore other business opportunities which are in line with the Group's development strategy so as to sustain long term growth.

On 27th July, 2001, Heng Fung has agreed to grant to Hai Xia Finance an option to acquire up to 380,000,000 Shares. A supplemental agreement to the option was signed on 6th April, 2002. In anticipation of the introduction of new investors, the management is seeking business opportunities which is mainly focused in the Strait.

On 29th April, 2002, the Group has entered into a co-operative agreement with Hai Xia Finance whereby Hai Xia Finance has agreed to exclusively procure to the Company investment rights in projects involving the installation of pipelines and supply of natural gas in selected cities of the PRC. Pursuant to the Agreement, natural gas includes coal gas, liquefied petroleum gas, liquefied natural gas and natural gas. In addition, Hai Xia Finance will assist the Company in relation to possible fund raising activities by way of private placements of Shares to potential strategic investors.

On 4th May, 2002, the Group has entered into agreements for the Acquisitions whereby the Group has agreed to acquire an aggregate of 60% interest in Beijing Xiangke Jiahua Oil & Gas Technology Co., Ltd. ("JV Co") to invest in natural gas business in the PRC. JV Co is engaged in the sale of oil, gas products and related chemical products, providing technical services on exploration of oil and gas fields, and installation of related facilities, equipment and instrument. The total consideration of approximately HK\$28.7 million will be settled by way of cash of HK\$18.7 million and issue of 10,000,000 New Shares representing approximately 1.1% of the issued ordinary share capital of the Company as at the Latest Practicable Date.

LISTING RULES

Pursuant to the Listing Rules, the formation of the Samoa Company will constitute a major transaction for the Company. Accordingly, the Investment Agreement and the Assignment Agreement require approval of the Shareholders at the SGM. As none of the Shareholders has material interest in the Agreements, no Shareholder is required to abstain from voting in respect of the resolution to approve the Investment Agreement and the Assignment Agreement.

CHANGE OF NAME

The Directors propose to change the name of the Company to "CHINA GAS HOLDINGS LIMITED" and have resolved to adopt a Chinese translation of the Company's name of 「中國燃氣控股有限公司」 for identification purpose. The proposed change of name reflects the Group's expansion into the natural gas industries in the PRC after (i) the acquisition of interests in a natural gas joint venture in the PRC; and (ii) the formation of the Samoa Company to invest in natural gas projects in Hunan Province, the PRC. The proposed change of name of the Company is subject to the passing of a special resolution by the Shareholders at the SGM and the approval by the Registrar of Companies in Bermuda. The change of name of the Company shall take effect

LETTER FROM THE BOARD

from the date on which the new name is registered by the Registrar of Companies in Bermuda in place of the existing name. Thereafter, the Company will comply with necessary filing procedures in Hong Kong.

The proposed change of name of the Company will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the existing name of the Company will, after the change of name, continue to be evidence of title to the Shares and will be valid for trading, settlement and delivery for the same number of Shares in the new name of the Company. As soon as the change of name has become effective, any new issue of share certificates will be issued in the new name of the Company.

SGM

Set out in this circular is a notice convening the SGM which will be held at 9:30 a.m. on Friday, 5th July, 2002 at Monaco Room, B1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong, at which ordinary resolution 1 will be proposed to approve the Investment Agreement and the Assignment Agreement and special resolution 2 will be proposed to approve the change of name.

The form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy and return it in accordance with the instructions printed thereon to Room 2601, 26th Floor, Island Place Tower, 510 King's Road, North Point, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM if you so wish.

RECOMMENDATIONS

The Directors consider the Investment Agreement, the Assignment Agreement and the change of name are in the interests of the Company and its Shareholders and recommend Shareholders to vote in favour of the resolutions to be put forward in the SGM to approve the Investment Agreement, the Assignment Agreement and the change of name.

GENERAL

Your attention is drawn to the appendices of this circular.

By Order of the Board
Li Xiaoyun
Co-Chairman

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Acquisitions and Placing, are as follows:

Shares:*HK\$**Authorised:*

9,000,000,000	Shares as at the Latest Practicable Date	<u>90,000,000.00</u>
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Issued and fully paid:

934,795,075	Shares in issue as at the Latest Practicable Date	9,347,950.75
10,000,000	Shares to be issued pursuant to the Acquisitions	100,000.00
33,333,333	Shares to be issued pursuant to the Placing	<u>333,333.33</u>
	Shares in issue following completion of Acquisitions and Placing	
<u>978,128,408</u>		<u>9,781,284.08</u>

Convertible Preference Shares:*HK\$**Authorised:*

	Convertible Preference Shares	
124,902,477	as at the Latest Practicable Date	<u>124,902,477</u>

Issued and fully paid:

	Convertible Preference Shares in issue	
<u>38,672,477</u>	as at the Latest Practicable Date	<u>38,672,477</u>

All the Shares in issue and to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

Since 31st March, 2001 and up to the Latest Practicable Date, the Company issued an aggregate of 596,502,768 Shares pursuant to exercises by holders of Convertible Preference Shares and employee share options.

Save as disclosed in this circular, no share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Save for the Convertible Preference Shares and an aggregate of 1,000,000 share options granted under the share option scheme of the Company to certain Directors, the Company has no options, warrants and conversion rights convertible into Shares as at the Latest Practicable Date. Save as disclosed herein, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

2. FIVE YEAR SUMMARY

The following information has been extracted from the audited consolidated financial statements of the Group for each of the five years ended 31st March, 2001:

	For the year ended 31st March,				
	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
TURNOVER	<u>120,967</u>	<u>73,251</u>	<u>15,517</u>	<u>10,966</u>	<u>4,169</u>
LOSS BEFORE TAXATION	(28,466)	(84,137)	(29,886)	(490)	(5,172)
TAXATION	<u>(148)</u>	<u>—</u>	<u>—</u>	<u>(157)</u>	<u>—</u>
NET LOSS FOR THE YEAR	<u>(28,614)</u>	<u>(84,137)</u>	<u>(29,886)</u>	<u>(647)</u>	<u>(5,172)</u>
At 31st March,					
	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	97,409	56,571	28,933	22,384	74,989
TOTAL LIABILITIES	<u>(36,517)</u>	<u>(79,833)</u>	<u>(5,488)</u>	<u>(3,014)</u>	<u>(4,569)</u>
BALANCE (DEFICIENCY) OF SHAREHOLDERS' FUNDS	<u>60,892</u>	<u>(23,262)</u>	<u>23,445</u>	<u>19,370</u>	<u>70,420</u>

3. SUMMARY OF UNAUDITED INTERIM RESULTS

The following is a summary of the unaudited condensed consolidated income statement of the Group for the six months ended 30th September, 2001, the unaudited condensed consolidated balance sheet of the Group as at 30th September, 2001 and the unaudited condensed consolidated cash flow statement of the Group for the six months ended 30th September, 2001 together with accompanying notes extracted from the interim report of the Company:

Condensed Consolidated Income Statement

For the six months ended 30th September, 2001

		Six months ended	
		30.9.2001	30.9.2000
	Notes	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	4	721	3,019
Cost of sales		(459)	(639)
Gross profit		262	2,380
Other revenue		484	113
Distribution costs		(458)	(1,908)
Administrative expenses		(1,446)	(1,667)
Loss from operations	5	(1,158)	(1,082)
Finance costs		–	(3)
Loss before taxation		(1,158)	(1,085)
Taxation	6	89	–
Net loss for the period		<u>(1,069)</u>	<u>(1,085)</u>
Loss per share			
Basic	7	<u>0.44 cents</u>	<u>0.52 cents</u>

There were no recognised gains or losses other than the net loss for the period.

Condensed Consolidated Balance Sheet*At 30th September, 2001*

	<i>Notes</i>	30.9.2001 <i>HK\$'000</i> (unaudited)	31.3.2001 <i>HK\$'000</i> (audited)
Non-current assets			
Investment properties	8	15,630	15,630
Property, plant and equipment	8	13,687	13,917
Properties held for development		43,100	43,100
		<u>72,417</u>	<u>72,647</u>
Current assets			
Trade and other receivables	9	241	490
Investments in securities		285	359
Pledged bank deposits		4,365	1,051
Amount due from ultimate holding company		–	–
Bank balances and cash		13,312	442
		<u>18,203</u>	<u>2,342</u>
Current liabilities			
Trade and other payables	10	2,534	2,253
Amount due to ultimate holding company		–	1,581
Amount due to a fellow subsidiary		389	389
Taxation		346	346
		<u>3,269</u>	<u>4,569</u>
Net current assets (liabilities)		<u>14,934</u>	<u>(2,227)</u>
		<u><u>87,351</u></u>	<u><u>70,420</u></u>
Capital and reserves			
Share capital	11	111,516	125,985
Reserves	12	(24,165)	(55,565)
		<u><u>87,351</u></u>	<u><u>70,420</u></u>

Condensed Consolidated Cash Flow Statement*For the six months ended 30th September, 2001*

	Six months ended	
	30.9.2001	30.9.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,323)	(573)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	51	86
NET TAX REFUNDED	89	–
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	<u>1,053</u>	<u>(37)</u>
NET CASH OUTFLOW BEFORE FINANCING	(5,130)	(524)
CASH INFLOW FROM FINANCING	<u>18,000</u>	<u>87</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,870	(437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>442</u>	<u>1,638</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>13,312</u></u>	<u><u>1,201</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u><u>13,312</u></u>	<u><u>1,201</u></u>

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Heng Fung Holdings Limited (formerly known as Online Credit International Limited) (“Heng Fung”), another public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 Interim Financial Reporting and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31st March, 2001 except as described below.

In the current period, the Group has adopted, for the first time, the following revised or new Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants:

Segment reporting

SSAP 26 “Segment reporting”, which has been adopted for the first time in this interim financial report, has established principles for reporting a segmental analysis of financial information. The details are set out in note 4.

Provisions

In accordance with SSAP 28 “Provisions, contingent liabilities and contingent assets”, provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Impairment of assets

SSAP 31 “Impairment of Assets” is effective for periods beginning on or after 1st January, 2001 and has introduced a formal framework for the recognition of impairment losses in respect of the Group’s assets.

The adoption of the above standards has had no material effect on amounts reported in prior periods.

4. SEGMENT INFORMATION

The Group's turnover and contribution to loss from operations, analysed by business segment and by geographical segment, are as follows:

	Turnover		Contribution to loss from operations	
	Six months ended		Six months ended	
	30.9.2001	30.9.2000	30.9.2001	30.9.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Retailing of fashion apparel and accessories	72	2,873	(368)	284
Property investment	617	142	497	(391)
Financial and securities investment	32	4	12	(346)
	<u>721</u>	<u>3,019</u>	141	(453)
Unallocated other revenue			484	113
Unallocated corporate expenses			(1,783)	(742)
Loss from operations			<u>(1,158)</u>	<u>(1,082)</u>

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss from operations are derived from Hong Kong.

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging (crediting):

	Six months ended	
	30.9.2001	30.9.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	207	279
Dividend income	(45)	(86)
Interest income	<u>(6)</u>	<u>(3)</u>

6. TAXATION

No provision for Hong Kong Profits Tax has been made as there is no assessable profit for the period (six months ended 30th September, 2000: Nil). The tax credit shown represented reversal of the overprovision of Hong Kong Profits Tax made in respect of previous years.

7. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss for the period of HK\$1,069,000 (six months ended 30th September, 2000: HK\$1,085,000) and on 240,440,268 (six months ended 30th September, 2000: 208,292,307) weighted average number of ordinary shares outstanding during the period. No diluted loss per share is calculated as the effect of potential ordinary share is anti-dilutive.

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired and disposed of property, plant and equipment of HK\$Nil and HK\$23,000 (year ended 31st March, 2001: HK\$36,000 and HK\$50,000) respectively.

The Group did not acquire or dispose of any investment properties during the period. During the year ended 31st March, 2001, the Group acquired investment properties of HK\$13,300,000 through acquisition of a subsidiary.

9. TRADE AND OTHER RECEIVABLES

The Group does not allow any credit terms to its trade customers.

The following is an aged analysis of trade and other receivables at the reporting date:

	30.9.2001 <i>HK\$'000</i> (unaudited)	31.3.2001 <i>HK\$'000</i> (audited)
0 – 60 days	–	11
61 – 90 days	–	–
Over 90 days	116	181
Deposits, prepayment and other receivables	125	298
	<u>241</u>	<u>490</u>

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the reporting date:

	30.9.2001 <i>HK\$'000</i> (unaudited)	31.3.2001 <i>HK\$'000</i> (audited)
0 – 60 days	330	718
61 – 90 days	161	5
Over 90 days	2,043	1,530
	<u>2,534</u>	<u>2,253</u>

11. SHARE CAPITAL

	Ordinary shares		Preference shares		
	No. of shares '000		No. of shares '000		Total
	<i>HK\$0.01 each</i>	<i>HK\$'000</i>	<i>HK\$1 each</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31st March, 2001	208,292	2,083	123,902	123,902	125,985
Issuance of new ordinary shares	30,000	300	–	–	300
Conversion of preference shares to ordinary shares	123,077	1,231	(16,000)	(16,000)	(14,769)
At 30th September, 2001	<u>361,369</u>	<u>3,614</u>	<u>107,902</u>	<u>107,902</u>	<u>111,516</u>

The following changes in the Company's share capital have taken place during the reporting period:

- (a) During the period, Heng Fung has exercised the option to convert 8,000,000 CP shares on each of 15th August, 2001 and 29th August, 2001 into total 123,076,922 ordinary shares of HK\$0.01 each at HK\$0.13 per share.
- (b) On 30th August, 2001, the Company issued 30,000,000 ordinary shares of HK\$0.60 each for a total consideration of HK\$18,000,000 to raise additional working capital to the Company.

12. RESERVES

	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 31st March, 2001	3,822	677	22,718	1,602	(84,384)	(55,565)
Issue of ordinary shares	–	–	17,700	–	–	17,700
Conversion of preference shares	–	–	14,769	–	–	14,769
Net loss for the period	–	–	–	–	(1,069)	(1,069)
At 30th September, 2001	<u>3,822</u>	<u>677</u>	<u>55,187</u>	<u>1,602</u>	<u>(85,453)</u>	<u>(24,165)</u>

13. PLEDGE OF ASSETS

At 30th September, 2001, the Group pledged a bank deposit of HK\$Nil (3.31.2001: HK\$1,051,000) to secure banking facilities granted to the Group.

14. CHANGE OF NAME

Pursuant to a special resolution passed on 16th October, 2001, the name of the Company was changed from eBiz.hk.com Limited 聯網商業香港有限公司 to Hai Xia Holdings Limited 海峽集團有限公司.

15. POST BALANCE SHEET DATE EVENTS

- (a) On 27th July, 2001, Heng Fung, Hai Xia Finance Holdings Ltd. (“Hai Xia Finance”) and the Company entered into an agreement whereby Heng Fung has agreed to grant to Hai Xia Finance an option to acquire up to 380,000,000 Shares of the Company at a price of HK\$0.16 per Share within 12 months from the date of satisfaction of certain conditions. A summary of the terms of this agreement are set out in a circular of Heng Fung dated 21st August, 2001 issued to the shareholders of Heng Fung. On 2nd November, 2001, the parties to this agreement entered into a supplemental agreement to extend the time limit for the satisfaction of the conditions to 31st December, 2001.
- (b) On 22nd November, 2001, the Company entered into the conditional agreement in relation to the Securities Exchange (the “Agreement”) with Greater China Sci-Tech Holdings Limited (“Greater China”). Pursuant to the Agreement, the Company has agreed to subscribe for the New Greater China Shares at a price of HK\$0.10 each in consideration for the issue by the Company’s New Shares at HK\$0.60 each. Upon completion of the Agreement, the Company will effectively hold 11.9% of ordinary share capital of Greater China and Greater China will effectively hold 21.6% of ordinary share capital of the Company.
- (c) On 28th November, 2001 (and amended on 4th December, 2001), a subscription agreement was entered into between the Company and First Bullet Finance Limited (the “Subscriber”) pursuant to which the Company has agreed to allot and issue to the Subscriber and the Subscriber has agreed to subscribe an aggregate of 36,000,000 shares in the capital of the Company (the “New Shares”) at a price of HK\$0.60 per New Shares, subject to, among other things, The Stock Exchange of Hong Kong Limited granting the listing or, and permission to deal in, the New Shares. A summary of the terms of this agreement are set out in an announcement of the Company dated 4th December, 2001.

4. SUMMARY OF AUDITED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated income statement of the Group for the three years ended 31st March, 2001, the audited consolidated balance sheet of the Group as at 31st March, 2001, and 31st March, 2000, the audited balance sheet of the Company as at 31st March, 2001, and 31st March, 2000, the audited consolidated statement of recognized gains and losses and consolidated cash flow statement of the Group for the two years ended 31st March, 2001 together with accompanying notes extracted from the audited accounts of the Company:

Consolidated Income Statement

For the year ended 31st March, 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover	4	4,169	10,966	15,517
Cost of sales		<u>(1,961)</u>	<u>(2,990)</u>	<u>(12,810)</u>
Gross profit		2,208	7,976	2,707
Other revenue	5	878	932	618
Distribution costs		(2,911)	(5,194)	(14,626)
Administrative expenses		(4,648)	(4,487)	(6,081)
Unrealised holding (loss) gain on investments in securities		(692)	286	(58)
Provision for loss upon commencement of liquidation of subsidiaries		<u>–</u>	<u>–</u>	<u>(4,134)</u>
Loss from operations	6	(5,165)	(487)	(21,574)
Finance costs	7	<u>(7)</u>	<u>(3)</u>	<u>(8,312)</u>
Loss before taxation		(5,172)	(490)	(29,886)
Taxation	10	<u>–</u>	<u>(157)</u>	<u>–</u>
Net loss for the year	11	<u><u>(5,172)</u></u>	<u><u>(647)</u></u>	<u><u>(29,886)</u></u>
Loss per share				
Basic	12	<u><u>2.48 cents</u></u>	<u><u>0.32 cent</u></u>	<u><u>20.96 cents</u></u>

Consolidated Balance Sheet*At 31st March, 2001*

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Non-current Assets			
Investment properties	13	15,630	2,370
Property, plant and equipment	14	13,917	14,585
Properties held for development	15	43,100	–
		<u>72,647</u>	<u>16,955</u>
Current Assets			
Inventories	17	–	500
Trade and other receivables	18	490	616
Investments in securities	19	359	655
Pledged bank deposits	31	1,051	2,020
Bank balances and cash		442	1,638
		<u>2,342</u>	<u>5,429</u>
Current Liabilities			
Trade and other payables	20	2,253	2,163
Bills payable		–	217
Trust receipt loans, secured		–	201
Amount due to ultimate holding company		1,581	–
Amount due to a fellow subsidiary		389	276
Taxation		346	157
		<u>4,569</u>	<u>3,014</u>
Net Current (Liabilities) Assets		<u>(2,227)</u>	<u>2,415</u>
		<u>70,420</u>	<u>19,370</u>
Capital and Reserves			
Share capital	22	125,985	69,583
Reserves	24	(55,565)	(50,213)
		<u>70,420</u>	<u>19,370</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****Balance Sheet***At 31st March, 2001*

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Non-current Assets			
Interests in subsidiaries	16	57,106	–
Current Assets			
Trade and other receivables		126	16
Bank balances and cash		160	1,090
		286	1,106
Current Liabilities			
Trade and other payables		1,148	935
Amount due to ultimate holding company		1,475	–
		2,623	935
Net Current (Liabilities) Assets		(2,337)	171
		<u>54,769</u>	<u>171</u>
Capital and Reserves			
Share capital	22	125,985	69,583
Reserves	24	(73,663)	(71,829)
		52,322	(2,246)
Non-current Liabilities			
Amounts due to subsidiaries	21	2,447	2,417
		<u>54,769</u>	<u>171</u>

Consolidated Statement Of Recognised Gains And Losses*For the year ended 31st March, 2001*

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Revaluation decrease on land and buildings	(140)	(3,087)
Revaluation decrease on investment properties	(40)	(316)
Losses not recognised in the income statement	(180)	(3,403)
Net loss for the year	(5,172)	(647)
Total recognised losses	<u>(5,352)</u>	<u>(4,050)</u>

Consolidated Cash Flow Statement*For the year ended 31st March, 2001*

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26	(2,291)	(1,900)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(7)	(3)
Interest received		128	171
Dividend income received		5	41
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		126	209
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(36)	(102)
Proceeds from disposal of property, plant and equipment		15	–
Decrease in pledged bank deposits		969	68
Purchase of subsidiaries, net of cash and cash equivalents acquired	27	222	–
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		1,170	(34)
NET CASH OUTFLOW BEFORE FINANCING		(995)	(1,725)
FINANCING	28		
Share conversion expenses		–	(25)
Repayment of trust receipt loans		(201)	(72)
CASH OUTFLOW FROM FINANCING		(201)	(97)
DECREASE IN CASH AND CASH EQUIVALENTS		(1,196)	(1,822)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,638	3,460
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		442	1,638
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		442	1,638

Notes to the Financial Statements*For the year ended 31st March, 2001***1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Heng Fung Holdings Limited (formerly known as Online Credit International Limited) (“Heng Fung”), another public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because Heng Fung has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company’s balance sheet at cost, as reduced by any impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

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

Rental income under operating leases is recognised on a straight line basis over the terms of the relevant leases.

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

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

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

Investment properties

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

Investment properties are stated at their open market value based on independent professional valuations 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 of 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.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation 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 remaining terms of the leases
Buildings	Over the shorter of the remaining terms of the leases or 50 years
Furniture and fixtures	15% – 50%
Motor vehicles	25%

Properties held for development

Properties held for development are stated at the cost of acquisition to the Group together with any attributable expenses less provision for anticipated losses, where appropriate.

Inventories

Inventories represent goods held for resale are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase, and where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Investments in securities

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

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

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

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

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

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over relevant lease terms.

Foreign currencies

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

4. TURNOVER AND SEGMENTAL INFORMATION

The Group's turnover and contribution to operating loss for the year ended 31st March, 2001, analysed by principal activity, are as follows:

	Turnover			Operating profit (loss)		
	2001	2000	1999	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity:						
Retailing of fashion apparel and accessories	3,586	8,907	13,253	1,818	564	(12,837)
Property investment	357	290	208	92	(1,009)	(1,550)
Financial and securities investment	226	1,769	2,056	33	1,429	(3,419)
	<u>4,169</u>	<u>10,966</u>	<u>15,517</u>	1,943	984	(17,806)
Other revenue				878	932	618
Corporate expenses				(7,986)	(2,403)	(4,386)
Loss from operations				<u>(5,165)</u>	<u>(487)</u>	<u>(21,574)</u>

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and operating loss are derived from Hong Kong.

5. OTHER REVENUE

	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	128	171	415
Others	750	761	203
	<u>878</u>	<u>932</u>	<u>618</u>

6. LOSS FROM OPERATIONS

	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):			
Auditors' remuneration			
– current year	360	340	300
– underprovision in respect of prior year	61	52	–
Depreciation	517	669	3,358
Dividend income from investments in securities	(5)	(41)	(39)
Loss on disposal of property, plant and equipment	35	69	76
Operating lease rentals			
– rented premises	870	2,290	6,218
– furniture and fixtures	12	12	142
	<u>882</u>	<u>2,302</u>	<u>6,360</u>
Directors' emoluments	180	180	120
Other staff costs	1,829	2,474	3,459
Total staff costs	<u>2,009</u>	<u>2,654</u>	<u>3,579</u>
Gross rents from investment properties	(357)	(290)	(208)
Less: outgoings	265	81	42
	<u>(92)</u>	<u>(209)</u>	<u>(166)</u>

7. FINANCE COSTS

Finance costs represented interest on bank loans, bank overdrafts and other borrowings wholly repayable within five years.

8. DIRECTORS' EMOLUMENTS

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Directors' fees			
– executive	–	–	–
– non-executive	90	90	60
Independent non-executive	90	90	60
	180	180	120
Other emoluments (executive directors):			
– salaries and other benefits	–	–	–
Total emoluments	<u>180</u>	<u>180</u>	<u>120</u>

The aggregate emoluments of each of the six (2000: six; 1999: four) directors during the relevant periods were within the emoluments band ranging from HK\$Nil to HK\$1,000,000.

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of them (2000: None; 1999: None) was a director of the Company. The emoluments of the five (2000: five; 1999: five) individuals were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries and other benefits	<u>885</u>	<u>1,041</u>	<u>924</u>

Emoluments of each of the five (2000: five; 1999: five) individuals were within the band ranging from HK\$Nil to HK\$1,000,000.

10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as there is no assessable profit for the Company and its subsidiaries.

Details of unprovided deferred taxation are set out in note 25.

11. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK\$5,172,000 (2000: HK\$647,000; 1999: HK\$29,886,000), a loss of HK\$48,072,000 (2000: HK\$25,499,000; 1999: HK\$31,196,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$5,172,000 (2000: HK\$647,000; 1999: HK\$29,886,000) and on 208,292,307 (2000: 201,356,620; 1999: 142,553,699) weighted average number of ordinary shares outstanding during the year. No diluted loss per share is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share in years 1999, 2000 and 2001.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

13. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
Valuation	
At 1st April, 2000	2,370
On acquisition of subsidiary	13,300
Deficit on revaluation	(40)
	<u>15,630</u>
At 31st March, 2001	<u>15,630</u>

Investment properties were revalued at their open market value at 31st March, 2001 by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers, on an open market existing use basis. This valuation gave rise to a deficit on revaluation of HK\$40,000 which has been charged to the investment property revaluation reserve.

Investment properties of the Group with a net book value of HK\$14,650,000 (2000: HK\$1,350,000) are rented out under operating leases.

The market value of investment properties shown above comprises:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Long lease in Hong Kong	13,300	–
Medium term lease in Hong Kong	2,330	2,370
	<u>15,630</u>	<u>2,370</u>

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1st April, 2000	14,000	4,167	152	18,319
On acquisition of subsidiaries	–	28	–	28
Additions	–	36	–	36
Disposals	–	(185)	–	(185)
Deficit on valuation	(420)	–	–	(420)
	<u>13,580</u>	<u>4,046</u>	<u>152</u>	<u>17,778</u>
At 31st March, 2001	<u>13,580</u>	<u>4,046</u>	<u>152</u>	<u>17,778</u>
Comprising:				
At cost	–	4,046	152	4,198
At valuation	13,580	–	–	13,580
	<u>13,580</u>	<u>4,046</u>	<u>152</u>	<u>17,778</u>
DEPRECIATION				
At 1st April, 2000	–	3,582	152	3,734
On acquisition of subsidiaries	–	25	–	25
Provided for the year	280	237	–	517
Eliminated on disposals	–	(135)	–	(135)
Adjustment on revaluation	(280)	–	–	(280)
	<u>–</u>	<u>3,709</u>	<u>152</u>	<u>3,861</u>
At 31st March, 2001	<u>–</u>	<u>3,709</u>	<u>152</u>	<u>3,861</u>
NET BOOK VALUES				
At 31st March, 2001	<u>13,580</u>	<u>337</u>	<u>–</u>	<u>13,917</u>
At 31st March, 2000	<u>14,000</u>	<u>585</u>	<u>–</u>	<u>14,585</u>

The leasehold land and buildings are situated Hong Kong and are held under medium term leases.

The leasehold land and buildings of the Group were revalued at 31st March, 2001 on an open market value basis by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers. The deficit arising on revaluation of leasehold land and buildings amounting to HK\$140,000 has been charged to the asset revaluation reserve.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements on a historical cost basis at the following amounts:

	<i>HK\$'000</i>
Cost	12,500
Accumulated depreciation	<u>(2,155)</u>
Net book values	
At 31st March, 2001	<u><u>10,345</u></u>
At 31st March, 2000	<u><u>10,625</u></u>

15. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term lease in Hong Kong – at cost	<u>43,100</u>	<u>–</u>

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	51,504	51,474
Impairment loss recognised	<u>(51,504)</u>	<u>(51,474)</u>
	<u>–</u>	<u>–</u>
Amounts due from subsidiaries	185,384	81,321
Provision for amounts due from subsidiaries	<u>(128,278)</u>	<u>(81,321)</u>
	<u><u>57,106</u></u>	<u><u>–</u></u>

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FINANCIAL INFORMATION ON THE GROUP

Particulars of the principal subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
eglobaljob.com Limited	Hong Kong	Ordinary HK\$2	100	–	Investment holding
Faith Profit Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property holding
Fronteer Securities (HK) Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment
instantstyle.com Limited	Hong Kong	Ordinary HK\$2	–	100	Sales of fashion via internet
Iwai Denmark Limited	Hong Kong	Ordinary HK\$10,000	–	100	Retailing of fashion apparel and accessories
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000	–	100	Investment holding, property investment and provision of management services to group companies
		Non-voting deferred shares HK\$1,000,000 (Note)	–	–	
Iwai's Investments Limited	The British Virgin Islands/ Hong Kong	Ordinary HK\$10,000	100	–	Investment holding
Iwai Paris Limited	Hong Kong	Ordinary HK\$500,000	–	100	Retailing of fashion apparel and accessories
Luckford Enterprise Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property development
Hai Xia Finance Limited (formerly known as Mall 368.com Limited)	Hong Kong	Ordinary HK\$2	–	100	Retailing of fashion apparel and accessories
Masaru Iwai Enterprises (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Trading of fashion apparel and accessories
Hai Xia Travel Limited (formerly known as PhoneBox International Limited)	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Wellgem Asia Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property development
York Winner Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment

None of the subsidiaries had any loan capital outstanding at the end of the year.

The above table lists the principal subsidiaries of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note: The deferred shares, which are not held by the Group, carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

17. INVENTORIES

THE GROUP

Included in inventories is an amount of HK\$Nil (2000: HK\$410,000) which were carried at net realisable value.

18. TRADE AND OTHER RECEIVABLES

The Group does not allow any credit terms to its trade customers.

The following is an aged analysis of trade and other receivables at the reporting date:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	11	74
61 – 90 days	–	2
> 90 days	181	52
Deposits, prepayment and other receivables	298	488
	<u>490</u>	<u>616</u>

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other investment securities listed in Hong Kong	<u>359</u>	<u>655</u>
Market value of listed securities	<u>359</u>	<u>655</u>

20. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the reporting date:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	718	996
61 – 90 days	5	–
> 90 days	1,530	1,167
	<u>2,253</u>	<u>2,163</u>

21. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment. The subsidiaries have confirmed that repayment of the amounts will not be demanded within one year from the balance sheet date and accordingly, the amounts are classified as non-current.

22. SHARE CAPITAL

	Ordinary shares		Preference shares		Total
	No. of shares '000 HK\$0.01 each	HK\$'000	No. of shares '000 HK\$1 each	HK\$'000	HK\$'000
Authorised	<u>9,000,000</u>	<u>90,000</u>	<u>124,902</u>	<u>124,902</u>	<u>214,902</u>
Issued and fully paid:					
At 1st April, 1999	200,600	2,006	68,500	68,500	70,506
Conversion of preference shares to ordinary shares	<u>7,692</u>	<u>77</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>(923)</u>
At 31st March, 2000	208,292	2,083	67,500	67,500	69,583
Issuance of new preference shares	<u>—</u>	<u>—</u>	<u>56,402</u>	<u>56,402</u>	<u>56,402</u>
At 31st March, 2001	<u>208,292</u>	<u>2,083</u>	<u>123,902</u>	<u>123,902</u>	<u>125,985</u>

The following changes in the Company's share capital have taken place during the past two years:

- (a) During 2000, Heng Fung has exercised the option to convert 1,000,000 non-voting cumulative redeemable convertible preference shares ("CP shares") into 7,692,307 ordinary shares of HK\$0.01 each at HK\$0.13 per share.
- (b) In connection with the acquisition of subsidiaries during the year, 56,402,477 CP shares at HK\$1 each were issued and allotted as consideration. The new CP shares can be converted into new shares at an initial conversion price of HK\$0.20 each, subject to adjustments.

The CP Shares shall carry equal rights and rank pari passu with one another as follows:

- (a) Holders of the CP Shares are entitled in priority to any dividend payable in respect of the ordinary shares of the Company at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP shares which are specified in the subscription agreement dated 12th February, 1999 and two supplement agreements dated 15th February, 1999 and 9th March, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is cumulative and payable semi-annually in arrears on 31st March and 30th September in each year during the conversion period which falls after the second anniversary from the date of issue of the CP Shares and the first payment is due on 30th September, 2001. No interest is payable for the first and second year in which the CP shares are outstanding. The conversion price of the CP Shares is HK\$0.13 and the maturity date of the CP shares is 30th March, 2004.
- (b) The CP Shares are convertible in multiples of 1,000,000 into the shares of the Company.
- (c) The CP Shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP shares.
- (d) The CP Shares do not have any voting rights.

23. SHARE OPTIONS

Under the terms of the Share Option Scheme (the "Scheme") which became effective on 2nd October, 1995, the board of directors of the Company may offer to any directors or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10 per cent. of the issued share capital of the Company from time to time.

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A summary of the options granted is as follows:

Name	Capacity	Exercise price HK\$	Number of option shares at 1st April, 1999, 1st April, 2000 and 31st March, 2001
Chan Heng Fai	Director	0.11	3,136,000
Chan Yoke Keow	Director	0.11	3,136,000
Chan Sook Jin, Mary-ann	Director	0.11	1,500,000
Lau Man Tak	Director	0.11	1,500,000
			<u>9,272,000</u>

No share option has been granted or exercised during the two years ended 31st March, 2001.

24. RESERVES

	Investment property revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP							
At 1st April, 1999	1,033	7,049	21,820	1,602	–	(78,565)	(47,061)
Deficit on revaluation	(316)	(3,087)	–	–	–	–	(3,403)
Issue of ordinary shares	–	–	923	–	–	–	923
Share conversion expenses	–	–	(25)	–	–	–	(25)
Net loss for the year	–	–	–	–	–	(647)	(647)
At 31st March, 2000	717	3,962	22,718	1,602	–	(79,212)	(50,213)
Deficit on revaluation	(40)	(140)	–	–	–	–	(180)
Net loss for the year	–	–	–	–	–	(5,172)	(5,172)
At 31st March, 2001	<u>677</u>	<u>3,822</u>	<u>22,718</u>	<u>1,602</u>	<u>–</u>	<u>(84,384)</u>	<u>(55,565)</u>
THE COMPANY							
At 1st April, 1999	–	–	21,820	–	48,474	(117,522)	(47,228)
Issue of ordinary shares	–	–	923	–	–	–	923
Share conversion expenses	–	–	(25)	–	–	–	(25)
Net loss for the year	–	–	–	–	–	(25,499)	(25,499)
At 31st March, 2000	–	–	22,718	–	48,474	(143,021)	(71,829)
Acquisition of subsidiaries	–	–	–	–	46,238	–	46,238
Net loss for the year	–	–	–	–	–	(48,072)	(48,072)
At 31st March, 2001	<u>–</u>	<u>–</u>	<u>22,718</u>	<u>–</u>	<u>94,712</u>	<u>(191,093)</u>	<u>(73,663)</u>

Notes:

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value 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 1995.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of acquisition and the nominal amount of the Company's share capital issued as consideration for the acquisition.

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 and its issued share capital and share premium accounts.

As at 31st March, 2001, the Company had no reserve available for distribution.

25. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the Group had a net deferred tax asset of HK\$8,153,000 (2000: HK\$4,863,000) not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the unprovided deferred tax asset are as follows:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences because of:		
Shortfall (excess) of tax allowances over depreciation	49	(2,543)
Tax losses	8,104	7,406
Net deferred tax asset	<u>8,153</u>	<u>4,863</u>

The amount of unprovided deferred tax credit for the year is as follows:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shortfall of tax allowances over depreciation	2,592	2,618
Tax losses arising	698	566
	<u>3,290</u>	<u>3,184</u>

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

Deferred taxation has not been provided on the valuation surplus arising on the revaluation of land and buildings and investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

26. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(5,172)	(490)
Depreciation	517	669
Loss on disposal of property, plant and equipment	35	69
Interest expense	7	3
Interest income	(128)	(171)
Dividend income from listed investments	(5)	(41)
Decrease in inventories	500	545
Decrease (increase) in trade and other receivables	159	(79)
Decrease in investments in securities	296	154
Increase (decrease) in trade and other payables	23	(2,907)
(Decrease) increase in bills payable	(217)	72
Increase in amount due to ultimate holding company	1,581	–
Increase in amounts due to fellow subsidiaries	113	276
Net cash outflow from operating activities	<u>(2,291)</u>	<u>(1,900)</u>

27. ACQUISITION OF SUBSIDIARIES*HK\$'000***NET ASSETS ACQUIRED**

Investment properties	13,300
Properties held for development	43,100
Property, plant and equipment	3
Other receivables	33
Bank balances and cash	222
Other payables	(67)
Taxation	(189)

56,402**SATISFIED BY**

Preference shares allotted	<u>56,402</u>
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NET CASH INFLOW ARISING ON ACQUISITION

Bank balances and cash acquired	<u>222</u>
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The subsidiaries acquired during the year did not have any material effect on the cashflow of the Group.

The subsidiaries acquired during the year did not have any material effect on the turnover and the operating loss of the Group.

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Trust receipt loans <i>HK\$'000</i>	Share capital and premium <i>HK\$'000</i>
At 1st April, 1999	273	92,326
Share conversion expenses	–	(25)
Repayment of trust receipt loans	<u>(72)</u>	<u>–</u>
At 31st March, 2000	201	92,301
Repayment of trust receipt loans	<u>(201)</u>	<u>–</u>
Preference shares issued for acquisition of subsidiaries	<u>–</u>	<u>56,402</u>
At 31st March, 2001	<u>–</u>	<u>148,703</u>

29. MAJOR NON-CASH TRANSACTIONS

- (a) During 2000, 1,000,000 preference shares of HK\$1 each were converted into ordinary shares of HK\$0.01 each at conversion price of HK\$0.13 per share. Accordingly, 7,692,307 ordinary shares were issued and a resulting premium of HK\$923,000 was credited to share premium account.
- (b) During the year, consideration for the purchase of subsidiaries were settled by way of issue and allotment of 56,402,477 preference shares of the Company.

30. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable within the next year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	–	142
In the second to fifth year inclusive	–	1,006
	<u>–</u>	<u>1,148</u>

At the balance sheet date, the Company did not have any commitments under non-cancellable operating leases.

31. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged a bank deposit of HK\$1,051,000 (2000: HK\$2,020,000) to secure banking facilities granted to the Group.

32. CONTINGENT LIABILITIES

Certain former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,542,000 plus interest and related costs. The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims. Accordingly, no provision has been made in these financial statements.

33. MANDATORY PROVIDENT FUND SCHEME

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The MPF Scheme contributions arising from the MPF Scheme charged to the income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

34. RELATED PARTY TRANSACTIONS

- (i) For the year ended 31st March, 2000, Heng Fung has given an undertaking to make available to the Company by way of loan facilities the necessary ongoing funding for the Company’s general working capital purposes for a maximum amount of HK\$50,000,000.
- (ii) During the year, the Company acquired subsidiaries at a consideration of HK\$56,402,477 from Heng Fung. The consideration was determined with reference to the audited net asset values of the subsidiaries acquired on 24th November, 2000.

5. INDEBTEDNESS

At the close of business on 30th April, 2002, the Group had outstanding borrowings of approximately HK\$1.0 million which represents amount due to the ultimate holding company. Save as aforesaid and disclosed under the section headed “Litigation” in Appendix III to this circular, and apart from intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 30th April, 2002 any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

6. WORKING CAPITAL

Taking into account the internal resources of the Group, and assuming completion of the Placing and successful fund raising by way of placing and project financing in relation to the investment injection to the Samoa Company, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements.

7. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2001, the date to which the latest audited financial statements of the Company were made up.

8. ADJUSTED NET TANGIBLE ASSETS

Set out below is a pro forma statement of the unaudited adjusted consolidated net tangible asset value of the Group based on the unaudited consolidated net tangible assets of the Group as at 30th September, 2001 and adjusted as follows:

	<i>HK\$'000</i>
Unaudited consolidated net tangible assets of the Group as at 30th September, 2001	87,351
Increase in net assets from issue and allotment of 100,000,000 Shares at HK\$0.60 per Share in exchange for 600,000,000 shares of Greater China pursuant to the share exchange as stated in the announcement of the Company dated 26th November, 2001 (adjusted for the related expenses and based on the closing price of the shares of Greater China as at 31st March, 2002 of HK\$0.055)	32,000
Net proceeds from the proposed issue and allotment of 33,333,333 Shares at HK\$0.90 per Share pursuant to the Placing	29,000
Proposed issue and allotment of 10,000,000 Shares at HK\$1 per Share pursuant to the Acquisitions	10,000
Pro forma unaudited adjusted consolidated net tangible assets	<u>158,351</u>
Pro forma unaudited adjusted net tangible assets per Share (based on 934,795,075 Shares in issue as at the Latest Practicable Date and 43,333,333 new Shares to be issued and full conversion of the Convertible Preference Shares) (<i>Note</i>)	<u>HK\$0.13</u>

Note: The number of Shares stated is based on the assumption that an aggregate of 213,012,383 Shares will be issued upon full conversion of the Convertible Preference Shares and no exercise of the employee share options.

Set out below is the text of a report, prepared for the purpose of incorporation in this circular, received from the auditors and reporting accountants of the Group, Deloitte Touche Tohmatsu in connection with the Samoa Company.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

6th June, 2002

The Directors
Hai Xia Holdings Limited
326 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

China Natural Gas Investment Group Limited (the “Samoa Company”) was incorporated in Samoa on 14th May, 2002 as an international company with limited liability under the International Companies Act 1987.

The Company has not conducted any business transactions since its date of incorporation. Incorporation expenses amounting to approximately HK\$9,000 were borne by the then shareholders of the Company. No audited accounts or management accounts have been prepared up to the date of this report.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the laws of Hong Kong) (the “SDI Ordinance”)) which require notification to the Company and the Stock Exchange pursuant to Section 28 of that Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part I of the Schedule to that Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

(i) Shares

Name of Directors	Personal interests
Chan Heng Fai	3,136,000
Chan Yoke Keow	3,136,000
Chan Sook Jin, Mary-ann	500,000

(ii) Shares options

Name of director	Date of grant	Exercise price HK\$	Exercise period	Number of share options
Chan Sook Jin, Mary-ann	10th February, 1998	0.11	10th February, 1998 to 9th February, 2008	1,000,000

Save for the above and the interest of the Directors in the Company held indirectly through their interest in Heng Fung as disclosed in the section headed “Substantial Shareholders” below in this Appendix, as at the Latest Practicable Date, no Directors had or deemed to have any interests in the share capital of the Company or its associated corporations (within the meaning of the SDI Ordinance which require notification to the Company and the Stock Exchange pursuant to Section 28 of that Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part I of the Schedule to that Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register maintained pursuant to Section 16(1) of the SDI Ordinance, the following Shareholders were interested in 10% or more of the Company's issued share capital:

Name	Direct interest	Deemed interest
Sure World Capital Limited (<i>Note</i>)	101,557,700 Ordinary shares	–
Rasa Sayang Limited (<i>Note</i>)	10,104,000 Ordinary shares	–
Heng Fung Capital Company Limited (<i>Note</i>)	3,388,000 Ordinary shares	–
Heng Fung Underwriter Limited (<i>Note</i>)	200,000 Ordinary shares	–
Heng Fung	141,153,844 Ordinary shares	256,403,544 Ordinary shares
	38,672,477 Non-voting cumulative preference shares	–
Profit Capital Limited	100,000,000 Ordinary Shares	–

Note: These companies are wholly-owned subsidiaries of Heng Fung. Messrs. Chan Heng Fai, Chan Yoke Keow, Chan Sook Jin, Mary-ann, Fong Kwok Jen, Chan Tong Wan and Wong Dor Luk, Peter have interests in shares of Heng Fung.

Save as disclosed above and other than the interests of the Directors and companies controlled by them as set out above, the Directors and the chief executive of the Company are not aware that there is any person who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the issued share capital of the Company or in any interests which was required to be recorded under Section 16(1) of the SDI Ordinance.

4. LITIGATION

Two former staff issued writs against the Company claiming for wrongful dismissal and compensation of approximately HK\$1,542,000 plus interest and related costs. As far as the Directors are aware, no further action has been taken by the petitioners. Save as aforesaid, neither the Company nor any of its subsidiaries is engaged in litigation or arbitration of material importance and so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against the Company or any of its subsidiaries.

5. EXPERT

Deloitte Touche Tohmatsu, certified public accountants, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report as set out in this circular and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL CONTRACTS

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

- (i) On 24th November, 2000, the Company entered into an agreement with Heng Fung in connection with the acquisition of three subsidiaries (the “Property Companies”) from Heng Fung. Pursuant to which, the Company agreed to acquire and Heng Fung agreed to sell the entire issued share capital of the Property Companies and the shareholder’s loans owing by the Property Companies to Heng Fung in an aggregate consideration of HK\$56,402,477. The consideration for the acquisition was satisfied by way of issue and allotment of Convertible Preference Shares II. The Convertible Preference Shares II can be converted into new Shares at an initial conversion price of HK\$0.20 each, subject to adjustments;
- (ii) On 27th July, 2001, Heng Fung, Hai Xia Finance and the Company entered into an agreement whereby Heng Fung has agreed to grant to Hai Xia Finance an option to acquire up to 380,000,000 Shares at a price of HK\$0.16 per Share within 12 months from the date of satisfaction of certain conditions. A summary of the terms of this agreement is set out in a circular of Heng Fung dated 21st August, 2001 issued to the shareholders of Heng Fung. On 2nd November, 2001, the parties to this agreement entered into a supplemental agreement to extend the time limit for the satisfaction of the conditions to 31st December, 2001;
- (iii) On 14th August, 2001, a subscription agreement was entered into between the Company and Optic Venture Holding Limited (“OVH”) pursuant to which the Company has agreed to allot and issue to OVH and OVH has agreed to subscribe for an aggregate of 30,000,000 new Shares at a price of HK\$0.60 per Share. A summary of the terms of the agreement is set out in an announcement of the Company dated 15th August, 2001;
- (iv) On 22nd November, 2001, an agreement was entered into between the Company and Greater China pursuant to which the Company has agreed to subscribe for 600,000,000 new ordinary shares of Greater China at a price of HK\$0.10 each in consideration of the issue by the Company to Greater China of 100,000,000 new

Shares at HK\$0.60 each. A summary of the terms of the agreement is set out in an announcement of the Company dated 26th November, 2001;

- (v) On 28th November, 2001 (and amended on 4th December, 2001), a subscription agreement was entered into between the Company and First Bullet Finance Limited (“FBF”) pursuant to which the Company has agreed to allot and issue to FBF has agreed to subscribe for an aggregate of 36,000,000 new Shares at a price of HK\$0.60 per Share. A summary of the terms of the agreement is set out in an announcement of the Company dated 4th December, 2001;
- (vi) On 6th April, 2002, a supplement agreement in respect of the grant of option by Heng Fung to Hai Xia Finance to amend certain terms and conditions of the agreement dated 27th July, 2001 as stated in 6(ii) of Appendix III of this circular. A summary of the terms of the supplemental agreement is set out in an announcement of the Company dated 11th April, 2002;
- (vii) On 29th April, 2002, a co-operative agreement was entered into between the Company and Hai Xia Finance pursuant to which Hai Xia Finance will procure exclusive investment projects in the area of natural gas pipelines installation and supply of natural gas. A summary of the terms of the co-operative agreement is set out in an announcement of the Company dated 30th April, 2002;
- (viii) On 4th May, 2002, the Group entered into three agreements to acquire an aggregate of 60% interest in JV Co by way of purchase of existing equity interests and injection of new capital for an aggregate consideration of approximately HK\$28.7 million. A summary of the terms of the three agreements is set out in announcement of the Company dated 9th May, 2002;
- (ix) On 7th May, 2002, a placing agreement was entered into between the Company and Sino-Finance Asset Management Limited pursuant to which the Company has agreed to allot and issue to Sino-Finance Asset Management Limited an aggregate of 33,333,333 new Shares at a price of HK\$0.90 per Share, subject to, among other things, the Stock Exchange granting the listing of, and permission to deal in the new shares. A summary of the terms of the placing agreement is set out in announcement of the Company dated 9th May, 2002;
- (x) the Investment Agreement; and
- (xi) the Assignment Agreement.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this circular.

7. MISCELLANEOUS

- (a) None of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation).
- (b) There is no contract or arrangement entered into by any member of the Group subsisting at the date thereof in which any Director is materially interested and which is significant in relation to the business of the Group.
- (c) None the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31st March, 2001, the date to which the latest published audited financial statements of the Group were made up.
- (d) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda. The principal share registrar and transfer office of the Company is Butterfield Corporate Services Limited at Rosebank Centre, 14 Bermudiana Road, Pembroke, Bermuda. The Hong Kong branch share registrar and transfer office of the Company is Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The secretary of the Company is Mr. Yuen Ping Man. *FCIS, FCS, MHKSI, MIHRM, MIPS (HK)*.
- (f) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the office of the Company at Room 2601, 26th Floor, Island Place Tower, 510 King's Road, North Point, Hong Kong from the date of this circular up to and including 20th June, 2002 and at the SGM:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31st March, 2001 and the interim report of the Company for the six months ended 30th September, 2001;
- (c) the accountants' report on the Samoa Company;
- (d) all material contracts, including the Investment Agreement and the Assignment Agreement, referred to in the paragraph headed "Material Contracts" in this appendix;
- (e) the written consent referred to in the paragraph headed "Expert" in this appendix; and
- (f) the major transaction circular dated 17th December, 2001 in relation to the securities exchange with Greater China; the discloseable transaction circular dated 30th May, 2002 in relation to the acquisition of interests in a natural gas joint venture.



HAI XIA HOLDINGS LIMITED

海峽集團有限公司*

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Hai Xia Holdings Limited will be held at 9:30 a.m. on Friday, 5th July, 2002 at Monaco Room, B1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions, as ordinary and special resolutions:–

ORDINARY RESOLUTION

“THAT

1. (a) the investment agreement (“Investment Agreement”) dated 13th May, 2002 entered into between Hai Xia Finance Limited and Hong Kong Syndisome Co., Limited in relation to, among other things, the formation of Samoa Company to invest in natural gas projects in the People’s Republic of China, a copy of which has been produced at this meeting marked “A” and initialed by the Chairman hereof for the purpose of identification, be and is hereby approved, confirmed and ratified, and that the directors of the Company be and are hereby authorized to do all other acts and things and execute such further documents which they consider necessary or expedient for the purpose of the implementation of and giving effect to the Investment Agreement and the transactions contemplated thereunder; and
- (b) the assignment agreement (“Assignment Agreement”) dated 16th May, 2002 entered into between Hai Xia Finance Limited and Hai Xia Finance Holdings Limited in relation to, among other things, the assignment of 7% shareholding in the Samoa Company from Hai Xia Finance Limited to Hai Xia Finance Holdings Limited, a copy of which has been produced at this meeting marked “B” and initialed by the Chairman hereof for the purpose of identification, be and is hereby approved, confirmed and ratified, and that the directors of the Company be and are hereby authorized to do all other acts and things and execute such further documents which they consider necessary or expedient for the purpose of the implementation of and giving effect to the Assignment Agreement and the transactions contemplated thereunder.”

* For identification purpose only

NOTICE OF SGM

SPECIAL RESOLUTION

2. “**THAT**, subject to and conditional upon the approval of the Registrar of Companies in Bermuda, the name of the Company be changed to “**CHINA GAS HOLDINGS LIMITED**” and adopted a Chinese translation of the Company’s name of 「中國燃氣控股有限公司」 for identification purpose.”

By the order of the Board
Yuen Ping Man
Company Secretary

Hong Kong, dated 6th June, 2002

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:

326 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at Room 2601, 26th Floor, Island Place Tower, 510 King’s Road, North Point, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
3. Completion and return of a proxy will not preclude you from attending and voting at the meeting if you so wish. In the event that you attend and vote at the meeting, the form of proxy will be deemed to be revoked.
4. A form of proxy for use at the above special general meeting is enclosed herewith.