THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your 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 Cosmopolitan International Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares of Cosmopolitan International Holdings Limited.

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

Cosmopolitan International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

PROPOSED SUBSCRIPTION OF NEW SHARES BY THE SUBSCRIBER AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER AND THE SPECIAL DEAL CONSENT

Financial advisers to Cosmopolitan International Holdings Limited

Deloitte & Touche Corporate Finance Ltd

Baron Capital Limited

Independent financial adviser to the independent board committee of Cosmopolitan International Holdings Limited

CAPITAL

CSC Asia Limited

A letter from the Board is set out on pages 6 to 18 of this circular. A letter from the Independent Board Committee containing its recommendation and advice in respect of the Subscription, the Whitewash Waiver and the Loan Repayment is set out on page 26 of this circular. A letter from CSC Asia Limited, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee is set out on pages 27 to 54 of this circular.

A notice convening the EGM to be held at 9:30 a.m. on Monday, 3 March 2003 at Pheasant Room, 1st Floor, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong, is set out on pages 121 to 125 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's principal place of business in Hong Kong at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

14 February 2003

CONTENTS

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

"Announcement"	the joint announcement made by the Company and Gold Capital dated 16 December 2002 in relation to the Subscription and the Whitewash Waiver
"Associate(s)"	has the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"CSC Asia"	CSC Asia Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee
"Company"	Cosmopolitan International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
"Completion"	completion of the Subscription pursuant to the Subscription Agreement
"Concert Party(ies)"	has the same meaning as ascribed to the term "parties acting in concert" under the Takeovers Code
"Consideration"	means the total consideration payable by the Subscriber to the Company for the Subscription
"Directors"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held on Monday, 3 March 2003, notice of which is set out on pages 121 to 125 of this circular, including any adjournment thereof
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

"FPDSavills"	FPDSavills (Hong Kong) Limited, an independent professional property valuer
"General Mandates"	the New Issue Mandate and the Repurchase Mandate
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent board committee of the Company comprising Prince Felix de Bar, Mr. Reynaldo A. de Dios and Mr. Wu Wai Leung Danny, the independent non-executive Directors, and Mr. Chui Man Lung Everett, a non-executive Director, which was formed to advise the Independent Shareholders on the Subscription, the Whitewash Waiver and the Loan Repayment
"Independent Shareholders"	the Shareholders, other than Eric Edward Hotung, C.B.E., and its Concert Parties
"Latest Practicable Date"	12 February 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the unsecured and interest-free loans in an aggregate amount of HK$54,000,000 owing from Cosmopolitan Properties and Securities Limited, a wholly-owned subsidiary of the Company, to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company as at the Latest Practicable Date. Eric Edward Hotung, C.B.E. originally made several unsecured and interest-free loan advancements to Cosmopolitan Properties and Securities Limited which, in aggregate, amounted to approximately HK$115,600,000 (as to HK$100,000,000 advanced on 31 July 2000 and as to US$2,000,000 advanced on 21 March 2001) and were for the purpose of providing general working capital to the Group. Such loan advancements were subsequently repaid partly as to approximately HK$61,600,000 by the Group
"Loan Repayment"	the repayment of the Loan

"New Issue Mandate"	a general and unconditional mandate proposed to be granted to the Directors at the EGM to exercise all the powers of the Company to allot, issue and otherwise deal with new Shares with an aggregate nominal amount not exceeding 20% of the issued share capital of the Company immediately following the allotment and issue of the Subscription Shares
"Relevant Period"	the period commencing on 16 June 2002, being the date falling six months immediately prior to the date of the Announcement and ending on the Latest Practicable Date
"Repurchase Mandate"	a general and unconditional mandate proposed to be granted to the Directors at the EGM to exercise all the powers of the Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the issued share capital of the Company immediately following the allotment and issue of the Subscription Shares
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"SFC"	the Securities and Futures Commission
"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Special Deal Consent"	the consent from the Executive required under Rule 25 of the Takeovers Code
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber" or "Gold Capital"	Gold Capital Investments Limited, an investment holding company incorporated in the British Virgin Islands with limited liability
"Subscription"	the subscription of the Subscription Shares by the Subscriber upon and subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 11 December 2002 entered into between the Company and the Subscriber in relation to the Subscription

"Subscription Price"	HK$0.31, being the subscription price of each of the Subscription Shares
"Subscription Shares"	176,500,000 new Shares to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Whitewash Waiver"	a waiver from the general offer obligation under the Takeovers Code pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

In this circular, for information purpose only, certain amounts in US$ have been translated into HK$ at the following rate: US$1 to HK$7.80. Such translation should not be construed as a representation that the US$ amounts have been, could have been or could be converted into HK$, as the case may be, at this or any other rates or at all.

	2003
Latest time for lodging the forms of proxy for the EGM	9:30 a.m. on Saturday, 1 March
EGM	9:30 a.m. on Monday, 3 March
Announcement of results of the EGM to appear in newspapers	on Tuesday, 4 March
Expected date of Completion *(Note)*	on or about Friday, 14 March

Note: If any of the conditions of the Subscription Agreement is not fulfilled or, if applicable, not waived, Completion will not take place.

Cosmopolitan International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:
Eric Edward Hotung, C.B.E. *(Chairman and Managing Director)*
Mr. Ho Shu Wah *(Alternate Director to Eric Edward Hotung, C.B.E.)*

Non-executive Director:
Mr. Chui Man Lung Everett

Independent non-executive Directors:
Prince Felix de Bar
Mr. Reynaldo A. de Dios
Mr. Wu Wai Leung Danny

Registered office:
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
5th Floor
The Chinese Club Building
21-22 Connaught Road Central
Central
Hong Kong

14 February 2003

To the Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES BY THE SUBSCRIBER AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER AND THE SPECIAL DEAL CONSENT

INTRODUCTION

It was announced on 16 December 2002 that the Company had entered into a conditional Subscription Agreement with the Subscriber in relation to the subscription by the Subscriber of 176,500,000 new Shares at an issue price of HK$0.31 per Subscription Share. The issue price of HK$0.31 per Subscription Share represents a discount of approximately 31.1% to the closing price of HK$0.45 per Share as quoted on the Stock Exchange on 11 December 2002, being the last trading day in the Shares on the Stock Exchange prior to the publication of the Announcement.

The Consideration amounting to HK$54,715,000 has been paid in full by the Subscriber on 12 December 2002 to the Company's solicitors, to hold as stakeholders for and on behalf of the Company and the Subscriber pending Completion.

Under the Subscription Agreement, upon Completion, the Subscriber and its Concert Parties will be interested in 176,500,000 Shares, representing approximately 150% of the existing issued share capital of the Company and approximately 60% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares to the Subscriber.

Under Rule 26 of the Takeovers Code, upon Completion, the Subscriber and its Concert Parties will normally be required to make an unconditional mandatory general offer for all the issued securities of the Company not already owned or agreed to be acquired by the Subscriber or its Concert Parties. Neither the Subscriber nor its Concert Parties currently hold any securities in the Company, and they have not acquired any voting rights in the Company during the Relevant Period. An application has been made to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll.

Completion of the Subscription is subject to the conditions as set out in the section headed "Conditions of the Subscription Agreement" below.

The net proceeds to be derived from the Subscription, after expenses, are estimated to be approximately HK$49 million. The Directors intend to apply such net proceeds principally as to HK$42.5 million to repay part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, and as to approximately HK$6.5 million as general working capital of the Group. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The Loan is only a temporary relief measure to assist the Company and should be repaid as soon as the Company is in a position to do so. The Loan is not meant to be a long term solution to the sustainability of the Company in the long run. Eric Edward Hotung, C.B.E. has indicated that he has no intention to enter into negotiations with the Company on other repayment schedules after the maturity of the Loan. The Loan is unsecured and interest free and Eric Edward Hotung, C.B.E. may demand repayment on or after 25 May 2003 when the Company is in a position to repay the same without impairing the Company's liquidity position. Eric Edward Hotung, C.B.E. has indicated that he will demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. The amount which needs to be repaid has not been determined by Eric Edward Hotung, C.B.E. yet but it will be up to such extent that will not impair the liquidity position of the Company. By utilising the available cash balance of the Company to reduce its indebtedness on the basis that the liquidity position of the Group will not be impaired, the Directors consider that the Loan Repayment is in the interests of the Company and the Shareholders as a whole. **The net effect of the application of the Subscription proceeds and the Loan Repayment as described above (i.e., the utilisation of HK$11.5 million of the Company's cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion to repay part of the Loan and the application of HK$6.5 million of the net proceeds of the Subscription as general working capital of the Group) is that there will be an overall reduction on the Group's cash balance by HK$5 million. At the same time, the gearing level of the Group will be lowered by the repayment of part of the Group's indebtedness.** The Loan Repayment constitutes a special deal under Rule 25 of the Takeovers Code and hence requires the Special Deal Consent. An application has been made to the Executive for the Special Deal Consent for the Loan

Repayment. The Executive has indicated that such consent will be granted subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll of the Loan Repayment. The Company has also obtained consents from the creditors of the Group (other than the tenants on whose behalf the Group holds the rental deposit) for the Loan Repayment. Following the Loan Repayment as disclosed above, no amount will be owed by the Group to Eric Edward Hotung, C.B.E..

The purpose of this circular is to provide the Shareholders with more information in relation to the Subscription, the Whitewash Waiver and the Loan Repayment for the purpose of voting on the resolutions as set out in the notice of the EGM which is set out on pages 121 to 125 of this circular. The recommendations and advice of the Independent Board Committee to the Independent Shareholders regarding the Subscription, the Whitewash Waiver and the Loan Repayment is set out on page 26 of this circular. A letter from CSC Asia to the Independent Board Committee containing its advice in relation to the Subscription, the Whitewash Waiver and the Loan Repayment is set out on pages 27 to 54 of this circular.

The Independent Board Committee consisting of Mr. Wu Wai Leung Danny, Mr. Reynaldo A. de Dios and Prince Felix de Bar, all being independent non-executive Directors, and Mr. Chui Man Lung Everett, a non-executive Director, has been formed for the purpose of advising the Independent Shareholders on the Subscription, the Whitewash Waiver and the Loan Repayment. Eric Edward Hotung, C.B.E., a Director and the chairman of the Company, currently holds approximately 25.46% of the issued share capital of the Company and the Loan Repayment will be made to him. Mr. Ho Shu Wah is a salaried Director. Under the Takeovers Code, Eric Edward Hotung, C.B.E. and Mr. Ho Shu Wah are considered not independent to advise the Independent Shareholders on the Subscription, the Whitewash Waiver and the Loan Repayment.

THE SUBSCRIPTION AGREEMENT

Date of the Subscription Agreement

11 December 2002

Parties

(i) the Company; and
(ii) the Subscriber.

The Subscriber is independent of and is not a Concert Party of the Directors, chief executive and substantial shareholders of the Company, any of the Company's subsidiaries or their respective Associates. The identities of the ultimate beneficial owners of the Subscriber are set out in the section headed "Information on Gold Capital" in the letter from Gold Capital of this circular.

Shares to be issued

Under the Subscription Agreement, the Company is to allot and issue 176,500,000 Shares to the Subscriber or its nominee, representing approximately 150% of the Company's existing issued share capital and approximately 60% of the Company's issued share capital as enlarged by the allotment and issue of the Subscription Shares to the Subscriber.

The Subscription Shares, when issued, will rank pari passu in all respects with the Shares in issue on the date of Completion, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of Completion.

The Subscription Price

The Subscription Price of HK$0.31 per Subscription Share was determined after arm's length negotiations between the Company and the Subscriber, and with reference to the factors including the unaudited net asset value of the Group of approximately HK$76.24 million as at 30 September 2002, the financial position of the Group and the preliminary valuation of the Group provided by an independent firm of valuers.

The Subscription Price represents:

- a discount of approximately 31.1% to the closing price of HK$0.45 per Share as quoted on the Stock Exchange on 11 December 2002, being the last trading day in the Shares on the Stock Exchange prior to the publication of the Announcement;

- a discount of approximately 31.1% to the average closing price of HK$0.45 per Share as quoted on the Stock Exchange over the last 10 trading days leading up to and including 11 December 2002;

- a discount of approximately 31.1% to the average closing price of HK$0.45 per Share as quoted on the Stock Exchange over the last 30 trading days leading up to and including 11 December 2002;

- a discount of approximately 52.3% to the net asset value per Share of approximately HK$0.65 based on the unaudited net asset value of the Group of approximately HK$76.24 million as at 30 September 2002 and 117,659,267 Shares in issue as at the date of the Announcement;

- a discount of 50.0% to the closing price of HK$0.62 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

- a discount of 50.0% to the average closing price of HK$0.62 per Share as quoted on the Stock Exchange over the last 10 trading days up to and including the Latest Practicable Date; and

- a discount of approximately 49.8% to the average closing price of approximately HK$0.617 per Share as quoted on the Stock Exchange over the last 15 trading days up to and including the Latest Practicable Date.

Conditions of the Subscription Agreement

Completion is conditional upon the following conditions having been fulfilled:

(a) the obtaining of the approval of the Independent Shareholders by way of poll in general meeting for the granting of the Whitewash Waiver and the allotment and issue of the Subscription Shares to the Subscriber in accordance with the terms and subject to the conditions of the Subscription Agreement;

(b) the obtaining of the approval of the eligible Shareholders in general meeting entitled to vote for the increase in the authorised share capital of the Company to HK$50,000,000 by the creation of 300,000,000 Shares to allow for the issue of the Subscription Shares to the Subscriber;

(c) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Subscription Shares;

(d) the current listing of the Shares not having been withdrawn and the Shares continuing to be traded on the Stock Exchange (save for any temporary suspension pending any announcement in connection with the execution of the Subscription Agreement or the transactions contemplated under the Subscription Agreement);

(e) the representations, warranties and undertakings contained in the Subscription Agreement remaining true and accurate and not misleading in any material respect at Completion;

(f) there is no breach of the pre-completion obligations as set out in the Subscription Agreement in any material respect; and

(g) the granting by the Executive of the Whitewash Waiver in relation to the obligation of the Subscriber and/or its Concert Parties to make a mandatory offer for all Shares already in issue and not already owned by the Subscriber or its Concert Parties as a result of the allotment and issue by the Company of the Subscription Shares to the Subscriber pursuant to the Subscription Agreement.

Under the Subscription Agreement, the conditions mentioned above (except for conditions (e) and (f)), cannot be waived by any of the parties.

As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived in whole or in part. The Executive has, however, agreed subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll, to grant the Whitewash Waiver.

The Company has no intention to issue any part of the authorised share capital other than the Subscription Shares to be issued pursuant to the Subscription Agreement.

Shareholders should be aware of and take note that the Subscription Agreement is conditional upon the satisfaction of all of the conditions set out above, and the Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Payment and Completion

The Consideration amounting to HK$54,715,000 has been paid in full by the Subscriber on 12 December 2002 to the Company's solicitors, to hold as stakeholders for and on behalf of the Company and the Subscriber pending Completion.

Completion is expected to take place on the first business day after all the conditions set out in the Subscription Agreement have been fulfilled or waived (only in respect of items (e) and (f) under the section headed "Conditions of the Subscription Agreement" above). In the event that the conditions of the Subscription Agreement are not fulfilled or waived before 28 February 2003 ("Longstop Date") and the parties thereto do not agree on any extension, the Subscription Agreement will lapse and have no further effect and the parties shall be released from all obligations under it, save for any antecedent claims arising under the Subscription Agreement. It has been agreed between the parties to the Subscription Agreement that the Longstop Date be extended to 30 April 2003.

USE OF PROCEEDS

The net proceeds to be derived from the Subscription, after expenses, are estimated to be approximately HK$49 million. The Directors intend to apply such net proceeds principally as to HK$42.5 million to repay part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, and as to approximately HK$6.5 million as general working capital of the Group. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The Loan is only a temporary relief measure to assist the Company and should be repaid as soon as the Company is in a position to do so. The Loan is not meant to be a long term solution to the sustainability of the Company in the long run. Eric Edward Hotung, C.B.E. has indicated that he has no intention to enter into negotiations with the Company on other repayment schedules after the maturity of the Loan.

The Loan is unsecured and interest free and Eric Edward Hotung, C.B.E. may demand repayment on or after 25 May 2003 when the Company is in a position to repay the same without impairing the Company's liquidity position. Eric Edward Hotung, C.B.E. has indicated that he will demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. The amount which needs to be repaid has not been determined by Eric Edward Hotung, C.B.E. yet but it will be up to such extent that will not impair the liquidity position of the Company. By utilising the available cash balance of the Company to reduce its indebtedness on the basis that the liquidity position of the Group will not be impaired, the Directors consider that the Loan Repayment is in the interests of the Company and the Shareholders as a whole. **The net effect of the application of the Subscription proceeds and the Loan Repayment as described above (i.e., the utilisation of HK$11.5 million of the Company's cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion to repay part of the Loan and the application of HK$6.5 million of the net proceeds of the Subscription as general working capital of the Group) is that there will be an overall reduction on the Group's cash balance by HK$5 million. At the same time, the gearing level of the Group will be lowered by the repayment of part of the Group's indebtedness.** The Loan Repayment constitutes a special deal under Rule 25 of the Takeovers Code and hence requires the Special Deal Consent. An application has been made to the Executive for the Special Deal Consent for the Loan Repayment. The Executive has indicated that such consent will be granted subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll of the Loan Repayment. Following the Loan Repayment as disclosed above, no amount will be owed by the Group to Eric Edward Hotung, C.B.E..

WARRANTY DEED

On 11 December 2002, Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, executed a warranty deed in favour of the Subscriber, in respect of warranties on certain aspects of the Company.

APPLICATION FOR LISTING

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. Subject to the Stock Exchange granting the listing approval, the obtaining of necessary approvals from the Independent Shareholders at the EGM and the satisfaction (or waiver) of the conditions of the Subscription Agreement, the Subscription Shares will be allotted and issued to the Subscriber on Completion.

All necessary arrangements will be made to enable the Subscription Shares to be admitted into CCASS.

SHAREHOLDING STRUCTURE

Set out below is a table showing the Company's existing shareholding structure and the shareholding structure upon the allotment and issue of the Subscription Shares on Completion:

Name	Existing shareholding	Approximate %	Shareholding immediately upon Completion	Approximate %
Eric Edward Hotung, C.B.E.	29,952,608	25.46	29,952,608	10.18
Hotung Investment (China) Limited *(Note)*	16,171,000	13.74	16,171,000	5.50
Genesee Company Limited *(Note)*	15,161,000	12.89	15,161,000	5.16
Subscriber	–	–	176,500,000	60.00
Public	56,374,659	47.91	56,374,659	19.16
Total	117,659,267	100.00	294,159,267	100.00

Note: Hotung Investment (China) Limited and Genesee Company Limited are considered as Concert Parties of Eric Edward Hotung, C.B.E. and are not considered as public shareholders since the acquisition of Shares by each of these companies were financed by Eric Edward Hotung, C.B.E..

Eric Edward Hotung, C.B.E. has no intention to dispose of any Shares upon Completion.

INFORMATION ON THE GROUP

The Group is principally engaged in property and securities investments.

For the year ended 31 March 2002, net loss attributable to Shareholders was approximately HK$45.1 million. For the 15 months ended 31 March 2001, the loss attributable to the Shareholders was approximately HK$198.4 million. For the six months ended 30 September 2002, the unaudited net profit attributable to Shareholders was approximately HK$12.8 million.

As at 31 March 2002, the audited consolidated net asset value of the Group was approximately HK$71.1 million.

As at 30 September 2002, the unaudited total liabilities of the Group amounted to approximately HK$124.8 million and the unaudited net asset value of the Group amounted to approximately HK$76.2 million, as indicated in the Group's published interim report for the six months ended 30 September 2002.

REASONS FOR THE SUBSCRIPTION

The core businesses of the Group are property and securities investments. Given the current property and securities market outlook, and the near term uncertainty in the present global economic environment (inclusive of Hong Kong economic environment), the Directors are of the view that it would be in the Company's interest as a whole to make investments with earnings potentials and which will complement the business of the Group.

The net proceeds to be derived from the Subscription, after expenses, are estimated to be approximately HK$49 million. The Directors intend to apply such net proceeds principally as to HK$42.5 million to repay part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, and as to approximately HK$6.5 million as general working capital of the Group. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The Loan is unsecured and interest free and Eric Edward Hotung, C.B.E. may demand repayment on or after 25 May 2003 when the Company is in a position to repay the same without impairing the Company's liquidity position. Eric Edward Hotung, C.B.E. has indicated that he will demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. The Loan in any event is not meant to be a long term solution to the sustainability of the Company.

The Directors consider that the Subscription provides an opportunity for the Group to improve its financial position by reducing its gearing level through the repayment of part of the Group's indebtedness. By utilising the available cash balance of the Company to reduce its indebtedness on the basis that the liquidity position of the Group will not be impaired, the Directors consider that the Loan Repayment is in the interests of the Company and the Shareholders as a whole. The Company has obtained consents from the creditors of the Group (other than the tenants on whose behalf the Group holds the rental deposit) for the Loan Repayment. **The net effect of the application of the Subscription proceeds and the Loan Repayment as disclosed above (i.e., the utilisation of HK$11.5 million of the Company's cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion to repay part of the Loan and the application of HK$6.5 million of the net proceeds of the Subscription as general working capital of the Group) is that there will be an overall reduction on the Group's cash balance by HK$5 million. At the same time, the gearing level of the Group will be lowered by the repayment of part of the Group's indebtedness.**

The Loan Repayment is subject to the Special Deal Consent being obtained. The Executive has indicated that such consent will be granted subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll of the Loan Repayment. Following the Loan Repayment, no amount will be owed by the Group to Eric Edward Hotung, C.B.E..

Given the consistently low trading volume of the Shares for the past year, the Directors consider that the terms of the Subscription, in particular the Subscription Price, are fair and reasonable so far as the Shareholders as a whole are concerned.

The Group has adopted a prudent approach in its business operations in recent years in view of the continuous decline in the property market and the poor stock market sentiment. The Directors generally consider that the outlook of the property market remains uncertain. For the securities trading business, the Group has significantly reduced its securities holding to minimise the risk of decline in market value. In view of the uncertainty of both the property and securities markets, the Directors have not formulated any specific strategy for the Group. It is expected that all the existing Directors will resign upon Completion and Gold Capital will nominate new executive and independent non-executive Directors to the Board. Particulars of the proposed new Directors are set out in the section headed "Changes to the Board" in the letter from Gold Capital of this circular.

INCREASE IN AUTHORISED SHARE CAPITAL

The authorised share capital of the Company consists of 200,000,000 Shares, of which 117,659,267 Shares were in issue as at the Latest Practicable Date. The Directors proposed to increase the authorised share capital of the Company from HK$20,000,000 to HK$50,000,000 by the creation of an additional 300,000,000 Shares. The proposed increase in the authorised share capital of the Company is subject to the approval of the Shareholders at the EGM.

TAKEOVERS CODE IMPLICATIONS FOR THE SUBSCRIBER

Upon the issue of the Subscription Shares to the Subscriber on Completion, the Subscriber will own approximately 60% of the then enlarged issued share capital of the Company. For the proposed changes in the Company's shareholding structure, please refer to the section headed "Shareholding structure" above.

Under Rule 26 of the Takeovers Code, upon Completion, the Subscriber and its Concert Parties will be obliged to make an unconditional mandatory general offer to acquire all the securities of the Company, other than those already owned or agreed to be acquired by the Subscriber or its Concert Parties.

Neither the Subscriber nor its Concert Parties currently hold any securities in the Company, nor have they acquired any voting rights in the Company during the Relevant Period. An application has been made to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll.

The net proceeds to be derived from the Subscription, after expenses, are estimated to be approximately HK$49 million. The Directors intend to apply such net proceeds principally as to HK$42.5 million to repay part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, and as to approximately HK$6.5 million as general working capital of the Group. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The Loan is only a temporary relief measure to assist the Company and should be repaid as soon as the Company is in a position to do so. The Loan is not meant to be a long term solution to the sustainability of the Company in the long run. Eric Edward Hotung, C.B.E. has indicated that he has no intention to enter into negotiations with the Company on other repayment schedules after the maturity of the Loan. The Loan is unsecured and interest free and Eric Edward Hotung, C.B.E. may demand repayment on or after 25 May 2003 when the Company is in a position to repay the same without impairing the Company's liquidity position. Eric Edward Hotung, C.B.E. has indicated that he will demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. The amount which needs to be repaid has not been determined by Eric Edward Hotung, C.B.E. yet but it will be up to such extent that will not impair the liquidity position of the Company. By utilising the available cash balance of the Company to reduce its indebtedness on the basis that the liquidity position of the Group will not be impaired, the Directors consider that the Loan Repayment is in the interests of the Company and the Shareholders as a whole. **The net effect of the application of the Subscription proceeds and the Loan Repayment as described above (i.e., the utilisation of HK$11.5 million of the Company's cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion to repay part of the Loan and the application of HK$6.5 million of the net proceeds of the Subscription as general working capital of the Group) is that there will be an overall reduction on the Group's cash balance by HK$5 million. At the same time, the gearing level of the Group will be lowered by the repayment of part of the Group's indebtedness.**. The Loan Repayment constitutes a special deal under Rule 25 of the Takeovers Code and hence requires the Special Deal Consent. An application has been made to the Executive for the Special Deal Consent for the Loan Repayment. The Executive has indicated that such consent will be granted subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll of the Loan Repayment. Following the Loan Repayment as disclosed above, no amount will be owed by the Group to Eric Edward Hotung, C.B.E..

EGM

The EGM will be held at 9:30 a.m. on Monday, 3 March 2003 at Pheasant Room, 1st Floor, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong. A notice of the EGM is set out on pages 121 to 125 of this circular. At the EGM, resolutions will be proposed to approve the matters set out below:

- the increase in the authorised share capital from HK$20 million to HK$50 million by the creation of an additional 300 million Shares;

- the allotment and issue of the Subscription Shares to the Subscriber or its nominee at Completion;
- the Whitewash Waiver;
- the Loan Repayment;
- the New Issue Mandate;
- the Repurchase Mandate; and
- the extension of the New Issue Mandate.

A form of proxy for use at the EGM is enclosed. Whether or not you (as a Shareholder) are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

GENERAL MANDATES

At the EGM, the Shareholders will be asked to consider and, if thought fit, to approve by way of ordinary resolutions, the New Issue Mandate to allot and issue new Shares not exceeding 20% of the share capital of the Company as enlarged by the issue of the Subscription Shares, the Repurchase Mandate to repurchase Shares not exceeding 10% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the extension of the New Issue Mandate. An explanatory statement to provide Shareholders with all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the resolution concerning the Repurchase Mandate is set out in Appendix V to this circular.

LISTING AND DEALING

It is the intention of Gold Capital and the future Directors (particulars of which are set out in the section headed "Changes to the Board" in the letter from Gold Capital of this circular) to maintain the listing of the Shares on the Stock Exchange after Completion. Accordingly, the future Directors, the Subscriber and the Company have jointly and severally undertaken to the Stock Exchange to ensure that the public float will not be less than 25% immediately after Completion. Since the acquisition of the Shares held by each of Hotung Investment (China) Limited and Genesee Company Limited were financed by Eric Edward

Hotung, C.B.E., a Director and a substantial shareholder of the Company, the Shares held by each of Hotung Investment (China) Limited and Genesee Company Limited will not be counted as part of the public float. Further announcement will be made in relation to any action taken in respect of the public float to ensure compliance with the Listing Rules.

The Stock Exchange has stated that it will closely monitor trading in the Shares if less than 25% of the Shares are held by the public. If the Stock Exchange believes that: (i) a false market exists or may exist in the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares. The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has the discretion to require the Company to issue an announcement and a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions and any such transaction may result in the Company being treated as if it were a new listing applicant.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee as set out on page 26 of this circular and the letter from CSC Asia, the independent financial adviser to the Independent Board Committee as set out on pages 27 to 54 of this circular in respect of the Subscription, the Whitewash Waiver and the Loan Repayment.

The Directors are of the opinion that the increase in the authorised share capital of the Company, the grant of the General Mandates and the extension of the New Issue Mandate are in the interests of the Company. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions numbered 1 and 3 to 5 to approve the increase in the authorised share capital of the Company, the grant of the General Mandates and the extension of the New Issue Mandate.

ADDITIONAL INFORMATION

Your attention is drawn to the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Cosmopolitan International Holdings Limited
Ho Shu Wah
Alternate Director to Eric Edward Hotung,
C.B.E. (Chairman and Managing Director)

GOLD CAPITAL INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

Directors:	*Registered Office:*
Mr. Kao Chu Chee, Emmanuel	P.O. Box 957,
Mr. Ma Ching Chung, Robert	Offshore Incorporations Centre,
Mrs. Kwok Tang Lai Hung, Bettie	Road Town, Tortola,
Mr. Victor Yang	the British Virgin Islands

14 February 2003

To the Shareholders

Dear Sir or Madam

**PROPOSED SUBSCRIPTION OF NEW SHARES BY THE SUBSCRIBER
AND
APPLICATION FOR THE GRANTING OF
THE WHITEWASH WAIVER AND THE SPECIAL DEAL CONSENT**

INTRODUCTION

We refer to the circular dated 14 February 2003 issued to the shareholders of Cosmopolitan International Holdings Limited (the "Circular"), of which this letter forms part. Capitalised terms used herein shall have the same meaning as defined in the Circular unless the context otherwise requires.

On 11 December 2002, Gold Capital entered into a conditional Subscription Agreement with the Company in respect of the Subscription of 176,500,000 new Shares of HK$0.31 each.

The purpose of this letter is to provide you with additional information of Gold Capital.

Your attention is drawn to the letter from the Board, the letter from the Independent Board Committee and letter from CSC Asia in respect of the Subscription, the Whitewash Waiver and the Loan Repayment as set out on pages 6 to 18, page 26 and pages 27 to 54 respectively of the Circular and the information set out in the appendices to the Circular.

INFORMATION ON GOLD CAPITAL

Gold Capital is an investment holding company incorporated in the British Virgin Islands with limited liability on 12 November 2002. Gold Capital is beneficially owned as to 51.67%

by Mr. Kao Chu Chee, Emmanuel, as to 25% by Magic Touch Group Limited, a company whose entire issued share capital is held by the trustee of a discretionary trust established for the benefit of Mr. Lee Pui Tak, Peter and Mr. Techee Cheung, as to 7.5% by Mr. Ma Ching Chung, Robert, as to 7.5% by Mrs. Kwok Tang Lai Hung, Bettie, as to 5% by SMATV Technology Limited, the ultimate beneficial shareholders of which are Mr. Wong Hung Kee, Stephen and Ms. Lily Wong, and as to 3.33% by Mr. Victor Yang through Kanwin Corporation.

Mr. Kao Chu Chee, Emmanuel, is a practicing solicitor in Hong Kong and a partner in the Hong Kong law firm of Kao, Lee & Yip. Mr. Lee Pui Tak, Peter, is a private investor who has extensive experience in securities investment. Mr. Techee Cheung has extensive experience in the sales and marketing of asset management products. Mr. Ma Ching Chung, Robert is a private investor who has extensive experiences in securities and property investment. Mrs. Kwok Tang Lai Hung, Bettie, is a private investor. Mr. Wong Hung Kee, Stephen is a private investor who has extensive business experience in the telecommunications, property and trading industries. Ms. Lily Wong is a private investor who has extensive business management experience. Mr. Victor Yang is a practicing solicitor in Hong Kong and a partner in the Hong Kong law firm of Boughton Peterson Yang Anderson.

Save from the intention to place down its shareholding interest in the Company to ensure that the public float will not be less than 25% after Completion, Gold Capital has no intention to transfer the Shares it will acquire to any other persons.

It is not intended that any of the beneficial owners of Gold Capital will be appointed to the Board.

INTENTION OF GOLD CAPITAL ON THE COMPANY AND FUTURE PLAN

Following the Completion, Gold Capital intends that the Group will continue the existing businesses of property and securities investments. The directors of Gold Capital will conduct a review of the financial position and operations of the Group with a view to strengthening the operations and future development of the Group. It is the business strategy of Gold Capital to make investments with earnings potentials. Gold Capital intends to proceed with investments through the Group which complement the business of the Group. Gold Capital has no intention or any specific plans to inject any assets into the Group or dispose of any of the Group's assets, other than in the Group's ordinary course of business.

The directors of Gold Capital concur with the view of the Directors that the Subscription provides an opportunity for the Group to improve its financial position by reducing its gearing level through the repayment of part of the Group's indebtedness. By utilising the available cash balance of the Company to reduce its indebtedness on the basis that the liquidity position of the

Group will not be impaired, the directors of Gold Capital concur with the view of the Directors that the Loan Repayment is in the interests of the Company and the Shareholders as a whole. **The net effect of the application of the Subscription proceeds and the Loan Repayment (i.e., the utilisation of HK$11.5 million of the Company's cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion to repay part of the Loan and the application of HK$6.5 million of the net proceeds of the Subscription as general working capital of the Group) is that there will be an overall reduction on the Group's cash balance by HK$5 million. At the same time, the gearing level of the Group will be lowered by the repayment of part of the Group's indebtedness.** The Company should settle the Loan such that after Completion, there will be no outstanding indebtedness with Eric Edward Hotung, C.B.E.. Moreover, after Completion and the Loan Repayment, the Company shall cease to have any indebtedness with its connected persons.

In relation to the property investment business, Gold Capital intends to lease up the vacant properties of the Group, including (more particulars of which are set out in the valuation certificate in Appendix III to this circular): various shop units, commercial units and domestic units of Cheong Lok Mansion; various domestic units of Cheong Ling Mansion, Cosmopolitan Centre and Cheong Chun Mansion and various units of Cheong Hong Mansion. By leasing out the vacant properties, the Group will be able to maximise the existing resources of the Company as a result of which it will generate better revenue of the Group.

In addition, Gold Capital intends to renovate the internal condition of certain properties of the Group to make them more attractive to tenants and rent out for higher rental income. The renovation cost will be financed by using internal resources of the Group. As preliminarily estimated by Gold Capital, it expects the Group to spend approximately HK$1 million on such renovation work. However, the exact amount of such costs will be subject to the review of the business and conditions of the Group by the proposed new Directors.

In relation to securities investment business, Gold Capital will, if it considers appropriate, invest in stocks in order to capitalise any possible opportunities arising from the recovery of the securities market. The proposed new Directors will rely on the financial and investment analysis by registered professional investment advisers in Hong Kong and other major stock markets and on their own judgment.

Overall, after Completion, Gold Capital will conduct a review of the business of the Group and the new management will also implement cost control measures on the operations of the Group. The directors of Gold Capital are aware of the fact that the current operating expenses comprised principally of administrative expenses. As such, the new management intends to implement cost control measures on administrative expenses including, but not limited to: (i) relocation of the Group's principal place of business to a vacant commercial unit of the Group or a new location of lower rents; (ii) renegotiation with the existing staff for lower staff salaries and benefits before Completion; and (iii) control over regular office operating expenses.

By maximising the revenue and income stream (through leasing out of the vacant properties) and reducing the cost of operation, the proposed new Directors anticipate that the financial position of the Group will be improved.

Gold Capital and the proposed new Directors also believe that in recent years, the Hong Kong government has made much effort in stabilising the Hong Kong property market. Measures being taken include freezing land sales, establishing the mortgage insurance plan, adjusting the supply of home ownership schemes residential flats and modifying the land supply mechanism. In addition, according to the annual policy address speech by the Chief Executive Tung Chee-hwa delivered on 8 January 2003, more overseas investors and more mainland professionals will be encouraged to settle in Hong Kong. In addition, the prospects of a low interest rate environment will potentially create a demand for property. Gold Capital believes that these factors would help to stimulate demand and restore confidence, thereby creating a favourable foundation for the future recovery and healthy development of the Hong Kong property market. In the long term, it will increase the overall turnover of property investment business of the Group. In the view of the directors of Gold Capital, the Subscription is a long term commercial justification, and it is intended that the Group's business network will be expanded and that financial and internal control of the Group will be tightened after Completion in order to improve efficiency.

Other than the transactions contemplated under the Subscription Agreement, Gold Capital has no other business.

CHANGES TO THE BOARD

It is expected that all the existing Directors will resign upon Completion. Mr. Ma Kwai Leung, Joseph and Mr. Low Kim Teik will be nominated by Gold Capital to join the Board as executive Directors, while Mr. Lok Shing Kwan, Sunny and Mr. Tang Ping Sum will be nominated as independent non-executive Directors.

The following is the biography of the proposed new Directors expected to comprise the Board upon Completion.

Executive Directors

Mr. Ma Kwai Leung, Joseph, aged 50, is currently a director of Chiu Kee Company Limited, a company engaged in Hong Kong commercial and residential property investment, leasing and management. Properties currently managed by Chiu Kee Company Limited include Tai Sang Commercial Building in Wanchai, Hong Kong. Mr. Ma has about 8 years of experience in property investment, leasing and management. Mr. Ma was an executive director of Magnificent Estates Limited, a company the shares of which are listed on the main board of the Stock Exchange, for the period from 1978 to 1987. This company is principally engaged in

Hong Kong property development and investment businesses, including the development and leasing of residential, commercial and factory buildings. Prior to engaging in the property investment business, Mr. Ma had over 10 years of experience in a family business in the textile industry where he gained experience in finance and general management.

Mr. Low Kim Teik, aged 63, was educated in Malaysia. He has over 10 years of experience in trading business including the supply of chemicals, textile and raw materials. From 1999 to 2001, Mr. Low was the managing director of Shanghai Underground Centre Company Limited, which was principally engaged in property investment. He is currently the managing director of Foo Yuen Estate Limited, which is principally engaged in property investment, leasing, management and development of both commercial and residential properties. Current projects include the investment in and development of the Parkview Tower in Zhongshan, the People's Republic of China.

Independent non-executive Directors

Mr. Lok Shing Kwan, Sunny, aged 37, has over 10 years of experience in finance, accounting, corporate and taxation affairs. He is an associate member of the Hong Kong Society of Accountants and a member of CPA Australia. Mr. Lok is a director of CSI Investment Management Limited and an independent non-executive director of China Investment Fund Company Limited and LeRoi Holdings Limited, both of which are listed on the Stock Exchange.

Mr. Tang Ping Sum, aged 46, is the deputy chairman and general manager of Hantec Investment Holdings Limited, a company listed on the Stock Exchange. Mr. Tang obtained a Master of Applied Finance Degree from Macquarie University, Australia. He has obtained experience in the financial services industry, in particular corporate finance, and the operational, financial, internal control, and risk management aspects of the business. Mr. Tang is a member of the CPA Australia, a fellow member of the Hong Kong Society of Accountants, a member of Hong Kong Securities Institute, a member of the advisory board of Society of Registered Financial Planners, a member of the Institute of Securities Dealers and the Hong Kong Institute of Directors. He is an investment adviser and a dealer registered under the Securities Ordinance.

Save as disclosed above, Gold Capital has no intention for the appointment of any additional Directors. Gold Capital believes that the proposed new Directors have sufficient relevant experience to manage the business of the Group. Gold Capital will conduct a review to assess the existing senior management and other employees of the Group and has yet to make a decision on the retention or replacement of such employees.

LISTING STATUS OF THE COMPANY

It is the intention of Gold Capital and the future Directors to maintain the listing of the Shares on the Stock Exchange after Completion. Accordingly, the future Directors, Gold Capital and the Company have jointly and severally undertaken to the Stock Exchange to ensure that the public float will not be less than 25% immediately after Completion. According to the letter from the Board of the Circular, since the acquisition of the Shares held by each of Hotung Investment (China) Limited and Genesee Company Limited were financed by Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, the Shares held by each of Hotung Investment (China) Limited and Genesee Company Limited will not be counted as part of the public float. To ensure that the public float will not be less than 25%, it is the intention of Gold Capital to place down its shareholding interest in the Company to one or more independent third parties not connected with any Director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective Associates immediately following Completion. However, no firm arrangements have been made as at the Latest Practicable Date. Further announcement will be made in relation to any action taken in respect of the public float to ensure compliance with the Listing Rules.

The Stock Exchange has stated that it will closely monitor trading in the Shares if less than 25% of the Shares are held by the public. If the Stock Exchange believes that: (i) a false market exists or may exist in the Shares; or (ii) there are too few Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares. The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has the discretion to require the Company to issue an announcement and a circular to its Shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions and any such transaction may result in the Company being treated as if it were a new listing applicant.

WAIVER FROM COMPLIANCE WITH CERTAIN PROVISIONS OF THE TAKEOVERS CODE

Upon Completion, Gold Capital and its Concert Parties will be interested in approximately 60% of the then enlarged issued share capital of the Company. Under Rule 26 of the Takeovers Code, upon Completion, Gold Capital and its Concert Parties will be obliged to make an unconditional mandatory general offer to acquire all the issued securities of the Company, other than those already owned or agreed to be acquired by Gold Capital or its Concert Parties. Neither Gold Capital nor its Concert Parties currently hold any securities in the Company, nor have they acquired any voting rights in the Company during the Relevant Period. An application has been made to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll.

If the Whitewash Waiver is approved by the Independent Shareholders, Gold Capital and its Concert Parties are expected to hold approximately 60% of the then enlarged issued share capital of the Company upon Completion. Therefore, after Completion, Gold Capital and its Concert Parties may increase their shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make an unconditional mandatory general offer.

GENERAL INFORMATION

Your attention is drawn to the letter from the Board, the letter from the Independent Board Committee and the letter from CSC Asia, the independent financial adviser to the Independent Board Committee in respect of the Subscription, the Whitewash Waiver and the Loan Repayment as set out on pages 6 to 18, page 26 and pages 27 to 54 respectively of the Circular and the information set out in the Appendices to the Circular.

Yours faithfully,
For and on behalf of
Gold Capital Investments Limited
Kao Chu Chee, Emmanuel
Director

Cosmopolitan International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

14 February 2003

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED SUBSCRIPTION OF NEW SHARES BY THE SUBSCRIBER AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER AND THE SPECIAL DEAL CONSENT

We refer to the circular of the Company issued to the Shareholders dated 14 February 2003 (the "Circular"), of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Independent Board Committee has been formed to consider whether the terms of the Subscription, the Whitewash Waiver and the Loan Repayment are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. CSC Asia has been appointed as the independent financial adviser to advise the Independent Board Committee in this respect.

The Independent Board Committee, having taken into account the advice of CSC Asia, considers that the terms of the Subscription, the Whitewash Waiver and the Loan Repayment are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote at the EGM in favour of the ordinary resolution approving the Subscription, the Whitewash Waiver and the Loan Repayment. The letter from CSC Asia containing its recommendations to the Independent Board Committee and the principal factors and reasons taken into account in arriving at such recommendations is set out on pages 27 to 54 of the Circular.

Yours faithfully,
The Independent Board Committee

Prince Felix de Bar
Independent non-executive Director

Reynaldo A. de Dios
Independent non-executive Director

Wu Wai Leung Danny
Independent non-executive Director

Chui Man Lung Everett
Non-executive Director

The following is the text of the letter of advice to the Independent Board Committee from CSC Asia dated 14 February, 2003 prepared for incorporation in this circular.

CAPITAL

CSC ASIA LIMITED
28/F, Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

14 February, 2003

To the Independent Board Committee of
Cosmopolitan International Holdings Limited

Dear Sirs,

PROPOSED SUBSCRIPTION OF NEW SHARES BY THE SUBSCRIBER AND APPLICATION FOR THE GRANTING OF THE WHITEWASH WAIVER AND THE SPECIAL DEAL CONSENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Subscription, the Whitewash Waiver and the Loan Repayment. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of this circular.

The Company had entered into a conditional Subscription Agreement on 11 December 2002 with the Subscriber in relation to the subscription by the Subscriber of 176,500,000 new Shares at an issue price of HK$0.31 per Subscription Share, for a total consideration of HK$54,715,000 which has been paid in full by the Subscriber on 12 December 2002 to the Company's solicitors, to hold as stakeholders for and on behalf of the Company and the Subscriber pending Completion.

Upon Completion, the Subscriber and its Concert Parties will be interested in approximately 60% of the then enlarged issued share capital of the Company and pursuant to Rule 26 of the Takeovers Code, the Subscriber and its Concert Parties will be required to make an unconditional mandatory general offer for all the issued securities of the Company not already owned or agreed to be acquired by the Subscriber or its Concert Parties. Neither the Subscriber nor its Concert Parties currently hold any securities in the Company, and they have not acquired any voting rights in the Company during the Relevant Period. An application has been made to the Executive for the Whitewash Waiver which, if granted, would be subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll. The Executive has indicated that it will grant the Whitewash Waiver.

The net proceeds to be derived from the Subscription are estimated to be approximately HK$49 million. The Directors intend to apply such net proceeds principally as to HK$42.5 million to repay part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, and as to approximately HK$6.5 million as general working capital of the Group. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The Loan is unsecured and interest free and Eric Edward Hotung, C.B.E. may demand repayment on or after 25 May 2003 when the Company is in a position to repay the same without impairing the Company's liquidity position. According to the Company, Eric Edward Hotung, C.B.E. has indicated to the Board that he will demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. By utilising the available cash balance of the Company to reduce its indebtedness on the basis that the liquidity position of the Group will not be impaired, the Directors consider that the Loan Repayment is in the interests of the Company and the Shareholders as a whole. The net effect of the application of the Subscription proceeds and the Loan Repayment as described above (i.e., the utilisation of HK$11.5 million of the Company's cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion to repay part of the Loan and the application of HK$6.5 million of the net proceeds of the Subscription as general working capital of the Group) is that there will be an overall reduction on the Group's cash balance by HK$5 million. At the same time, the gearing level of the Group will be lowered by the repayment of part of the Group's indebtedness. The Loan Repayment constitutes a special deal under Rule 25 of the Takeovers Code and hence requires the Special Deal Consent. An application has been made to the Executive for the Special Deal Consent for the Loan Repayment. The Executive has indicated that the Special Deal Consent will be granted subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll. Following the repayment of the Loan as disclosed above, no amount will be owed by the Group to Eric Edward Hotung, C.B.E..

In formulating our recommendation, we have relied upon the accuracy of the information and representations contained in this circular and have assumed that all information and representations made or referred to in this circular were true at the time they were made and continue to be true as at the date of the EGM. We have relied on the information provided to us by the Company and the Directors and our discussion with the management of the Company regarding the information and representations contained in this circular.

We have also assumed that all statements of belief, opinion and intention made by the Directors and the management of the Company and Gold Capital in this circular were reasonably made after due enquiry.

We have reviewed, among other things, the published information of the Group, including its unaudited interim report for the six months ended 30 September 2002 (the "Interim Report 2003"), annual reports for the year ended 31 March 2002 and 15 months ended 31 March 2001, the Whitewash Waiver, the application for the Special Deal Consent, the conditional Subscription Agreement, the warranty deed dated 11 December 2002 executed by Eric Edward Hotung, C.B.E. in favour of Gold Capital and other financial information provided by the Company.

We considered that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in this circular and to provide a reasonable basis of our recommendation. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in this circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company and Gold Capital. We have not, however, conducted an independent investigation into the business affairs, financial position or future prospects of the Group or Gold Capital nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice in respect of the terms of the Subscription, the Whitewash Waiver and the Loan Repayment, we have considered the following principal factors:

(1) Reasons for the Subscription

The following table shows some of the key financial figures extracted from the Interim Report 2003, annual reports for the year ended 31 March 2002 and the 15 months ended 31 March 2001:

Financial Information Currency: HK$'000	**Unaudited 6 months ended 30 Sep 2002**	**Audited Year ended 31 Mar 2002**	**Audited 15 months ended 31 Mar 2001**
Income statement			
Turnover			
– results from securities trading	–	(39,253)	(52,410)
– gross rental income from investment properties	3,771	7,105	9,728
	3,771	(32,148)	(42,682)
Rental costs	(390)	(841)	(1,551)
Gross profit/(loss)	3,381	(32,989)	(44,233)
Other revenue/(expenses), net	10,582	(8,390)	(145,233)
Finance costs	(1,140)	(4,300)	(8,964)
Tax	–	578	(9)
Profit/(loss) attributable to shareholders	12,823	(45,101)	(198,439)
Earnings/(loss) per share – Basic (Cents)	10.98	(41.50)	(182.60)

Financial Information Currency: HK$'000	Unaudited As at 30 Sep 2002	Audited As at 31 Mar 2002	Audited As at 31 Mar 2001
Balance Sheet			
Fixed assets	170,831	196,848	221,447
Current assets	30,232	27,089	142,912
Current liabilities	(9,054)	(62,155)	(102,677)
Non-current liabilities			
long term bank loan	(57,090)	(3,909)	(4,287)
other long term liabilities	(58,678)	(86,763)	(117,028)
	(115,768)	(90,672)	(121,315)
Net assets value	76,241	71,110	140,367

	Unaudited 6 months ended 30 Sep 2002	Audited Year ended 31 Mar 2002	Audited 15 months ended 31 Mar 2001
Cash flow analysis			
Net cash inflow/(outflow) from:			
operating activities	(899)	87,601	(198,725)
returns on investments and servicing of finance	N/A	(3,641)	(38,945)
taxation paid	N/A	(212)	(9)
investing activities	27,925	–	120
financing activities	3,750	(309)	114,845
Increase/(decrease) in cash and cash equivalents*	30,776	83,439	(122,714)

* Increase/(decrease) in cash and cash equivalents is derived from after considering operating activities, returns on investments and servicing of finance, taxation, investing activities and finance activities but excluding effect of foreign exchange rate changes.

N/A Information was not available.

(a) Strengthening the financial position and enhancing future development of the Group

The Group is principally engaged in property and securities investment. As depicted in the above table, the Group recorded profit attributable to shareholders of approximately HK$12.82 million for the 6 months ended 30 September 2002 and reported losses attributable to shareholders of approximately HK$45.10 million and HK$198.44 million for the year ended 31 March 2002 and the 15 months ended 31 March 2001 respectively. As advised by the Directors, the improvement in performance of the Company in the 6 months ended 30 September 2002 mainly resulted from a disposal gain of approximately HK$16.58 million on an investment property. Furthermore, the Group had temporarily frozen its trading activities in the securities markets in view of the bearish atmosphere anticipated by the Group during the same period. According to its annual reports 2001 and 2002, the Company's securities investment business was the cause of losses attributable to the Group's financial performance for the year ended 31 March 2002 and 15 months ended 31 March 2001. However, on the other hand, the property investment business was able to maintain its rental income and supplied the Group with a stable stream of revenue and cash inflow all through the periods and year as depicted in the above table.

As revealed in the unaudited Interim Report 2003 of the Company, the Group has cash and cash equivalents of approximately HK$25.52 million as at 30 September 2002. However, a net cash outflow from operating activities of approximately HK$0.90 million is noted for the six-month period ended 30 September 2002. As such, assuming the operation of the Group in this period remain largely the same in the future, the aforesaid cash and cash equivalents will likely be decreasing as consumed by future cash outflow from operating activities. In addition, the Group has a total debt obligation (including bank borrowings and other loans) of approximately HK$118.53 million which has to be fulfilled in the future. Of this total debt obligation, approximately HK$25.14 million of bank borrowings are due to be repaid within the next 5 years commencing 1 October 2002, and approximately HK$58.18 million of loans as of 30 September 2002 owing to Eric Edward Hotung, C.B.E., a Director and substantial shareholder of the Company, may demand repayment on or after 25 May 2003 when the Company is in a position to repay the same without impairing the Company's liquidity position. However, according to the Company, Eric Edward Hotung, C.B.E. has indicated to the Board that he will demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. The amount which needs to be repaid has not been determined by Eric Edward Hotung, C.B.E. yet but it will be up to such extent that will not impair the liquidity position of the Company. Any such repayment will lower the Company's cash reserve and may deprive the Company of sufficient money to carry out plans which will improve its financial position in the long run. According to the Company, given this fact and that the making of the Loan is only a temporary relief measure for the Company, the repayment of the Loan is an issue which will remain with the Company for as long as the Loan is not repaid in full. We are of the view that it is not beneficial to the

Company or the Shareholders when there is uncertainty as to when Eric Edward Hotung, C.B.E., will demand repayment of the Loan or when such heavy debt is owed by the Company. Based on this analysis, in order to remove the uncertainty, it is advisable to deal with the issue of the Loan Repayment sooner rather than later when the Company is in a position to do so. With the availability of proceeds from the Subscription and the anticipation that the repayment of the Loan will not impair the liquidity position of the Company, it is only logical for the Company to repay the Loan in full at the opportune time. Accordingly, given the likelihood of the continuous reduction in the cash balance of the Group in the future under the assumption mentioned above, the Group would have difficulties to settle its short to medium-term debt liabilities of approximately HK$83.32 million as at September 2002 in the future without taking steps which will affect the financial and operational health of the Group, such steps may include disposal of the Group's investment properties (which have been the main source of stable revenue and cash inflow to the Group for the previous periods and year as depicted in the table above) to create cash or cash equivalents.

As mentioned in the letter from the Board, the net proceeds to be derived from the Subscription, after expenses, are estimated to be approximately HK$49 million. The Directors intend to apply HK$42.5 million of such net proceeds to repay part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. Assuming that the date of Completion is before 30 June 2003, we concur with the Directors that the cash balance will not be less than HK$12 million at Completion.

As mentioned in the letter from Gold Capital, it is expected that all the existing Directors, including Eric Edward Hotung, C.B.E., will resign from the Board and he will only remain as a shareholder of the Company after Completion. According to Gold Capital, it is its intention to settle the Loan and as a result, after Completion, there will be no further ongoing connected indebtedness with Eric Edward Hotung, C.B.E.. Such ongoing connected indebtedness, especially at an amount representing a substantial portion of the Company's total financing, will create uncertainty to the Company as to when the Loan will be required to be settled and this places pressure on the financial stability of the Group. Moreover, after Completion and the Loan Repayment, the Company shall cease to have any indebtedness with its connected persons. As mentioned above, the nature of the Loan is only a temporary relief measure to assist the Company and should be repaid as soon as the Company is in a position to do so. The Loan is not meant to be a long term solution to the sustainability of the Company in the long run. According to the Company, Eric Edward Hotung, C.B.E., has no intention to enter into negotiations with the Company on other repayment schedules after the maturity of the Loan. We believe that with the availability of proceeds from the Subscription and the anticipation that the repayment of the Loan will not impair the liquidity position of the Company, it is only logical for the Company to repay the Loan at this opportune time notwithstanding a reduction of HK$5 million in cash balance and a dilution on the shareholding of the Independent Shareholders from 47.91% to 19.16%, which will be further discussed in section 4(v) headed "Dilution on the shareholding of the Independent Shareholders" of this letter. Accordingly, that is the reason why even though the Loan is interest-free and unsecured, a substantial part of the Subscription proceeds together with HK$11.5 million from internal resources will be used to pay off the Loan owing to Eric Edward Hotung, C.B.E..

As a result, after Completion and the Loan Repayment, the total debt of the Group would be significantly reduced by approximately HK$54 million. However, with the immediate inflow and outflow of working capital due to the Subscription and the Loan Repayment, there is a net reduction in working capital of approximately HK$5 million.

However, such reduction in working capital by approximately HK$5 million will not adversely affect the liquidity position of the Group. The Company has warranted that at Completion, the total cash balances of the Group will not be less than HK$12 million, this amount will be reduced by HK$5 million to not less than HK$7 million upon receipt of the Subscription proceeds and immediately following the Loan Repayment and is sufficient for general operation of the Group without the pressure of obtaining additional financing. We are of the opinion that such reduction in working capital by approximately HK$5 million will not adversely affect the liquidity position of the Group and is sufficient to finance the renovation work of approximately HK$1 million (which is preliminarily estimated by Gold Capital and will be further discussed in section 1(d) headed "New Directors of the Company" of this letter) to be carried out by the new Directors on certain properties of the Group.

According to the unaudited projected cash flow of the Group for the year ending 31 December 2003 provided by the Company (the "Projected Cash Flow 2003"), the annual net cash outflow for the year ending 31 December 2003 is around HK$4.81 million. As mentioned above, upon receipt of Subscription proceeds and immediately following the Loan Repayment, the total cash balances of the Group will not be less than HK$7 million. Assuming that the operation of the Group as mentioned in the Projected Cash Flow 2003 will remain roughly the same after Completion, the cash balance of the Group of around HK$7 million can sustain the Group for at least 17 months (as calculated from dividing HK$7 million by the annual cash outflow of HK$4.81 million). As discussed later in section 1(d) headed "New Directors of the Company" of this letter, as preliminarily estimated by Gold Capital, it expects the Group to spend approximately HK$1 million as the renovation costs to improve the internal conditions of certain properties of the Group after Completion. Taking into consideration of the above, the cash balance of the Group will be not less than HK$6 million (as calculated by deducting the aforesaid approximate

HK$1 million renovation costs from the cash balance of the Group of at least HK$7 million upon receipt of the Subscription proceeds and immediately following the Loan Repayment) which is sufficient to sustain the Company for more than 14 months (as calculated from dividing HK$6 million by the annual cash outflow of HK$4.81 million). In view of such, we are of the view that the reduction in working capital by approximately HK$5 million will not adversely affect the liquidity position of the Group. However, as mentioned below, the new Directors are expected to provide the all-important impetus, leadership and new direction to the Group. By maximizing the revenue and income stream (through leasing out of the vacant properties) and reducing the cost of operation, the new Directors anticipate that the financial position of the Group will be improved. As such, we are of the opinion that, after the introduction of the new Directors to the Company, the financial position and income stream of the Group are expected to be improved and the cash balance is expected to be increased for the ongoing operation of the Group.

Although the immediate outcome of the Subscription and the Loan Repayment seem to affect the Group's cash flow by a reduction of HK$5 million, the resolution over the uncertainty on the repayment of the Loan, the settlement of such debt owed by the Company and the introduction of new leadership and impetus, in our opinion, outweigh the immediate reduction of cash flow. In addition, the Subscription and the Loan Repayment will benefit the Company's financial position in the long run in that it will strengthen the capital structure and increase financial stability of the Company by replacing temporary debt financing with equity funding from Gold Capital and eliminate the uncertainty as to when the Loan will be required to be settled on or after 25 May 2003 respectively. This would naturally place the Company in a better position to raise new capital for its operations and future expansion. Thus we are of the view that the Subscription and the Loan Repayment will benefit the Company and the Shareholders in the long run rather than in the near term. Yet, the Group has no imminent need to obtain such financing.

With regard to the property market in Hong Kong, the Hong Kong government has in the recent years taken much effort to stabilize and revive the property market in the long run by applying various measures. For example, as the sole supplier of land in Hong Kong, it has been reducing the supply of land and in turn been tightening the total future supply of properties by modifying the land supply mechanism such as freezing land sale. Moreover, being one of the major property developers, it has been reducing the supply of public housing by adjusting the supply of home ownership scheme residential flats. Apart from that, it has also planned to establish the mortgage insurance plan that can lessen the risk of mortgage loans offered by banks to property buyers, which in turn increases the purchasing ability of property buyers and thus create a positive effect on the market demand for property. Moreover, according to the annual policy address speech delivered by Mr. Tung Chee-hwa, the Chief Executive of Hong Kong, on 8 January 2003, more overseas investors and more mainland talent, professionals and entrepreneurs are encouraged to invest, work and reside in Hong Kong. This would create potential demands for both commercial and residential properties in Hong Kong. Moreover, the low interest rate environment in Hong Kong would, on one hand, discourage people from saving money at banks which in the previous years used to offer high interest and on the other hand, encourage people to purchase properties at a low mortgage interest rate. Accordingly, demand for properties is likely to be increased simultaneously.

We believe that in a free economy like Hong Kong, the performance of the property market is prominently determined by market supply and demand. As mentioned in the foregoing, the supply side of the property market is certainly to be reduced in the future through freezing land sales and adjusting the home ownership scheme residential flats. On the other hand, the demand side of the property market is expected to grow in view of the adjustment to the mortgage insurance plan made by the Hong Kong government, the encouragement for overseas investors and mainland talent, professionals and entrepreneurs to come to Hong Kong and the low interest rate environment. Furthermore, we have no doubt in believing the Hong Kong government's ability and continuous efforts in motivating the recovery of the property market.

Taking into account the above-mentioned, we anticipate that the property market will be improved in the future. However, we cannot anticipate when exactly such recovery will occur in the future.

Upon Completion, the financial position of the Group will be strengthened by reducing its gearing level through repayment of part of the Group's indebtedness. In addition, a new board of Directors which comprises members who have ample experience in property investment as stated in the letter from Gold Capital, will be nominated while all the existing Directors are expected to resign. With a more promising financial condition and a new board of Directors with ample experience in property investment after Completion, the Group is expected to be placed in a better position to capitalize future growth in the property market by exploring possible opportunities arising from the recovery of the property market and to make appropriate investment should opportunities arise. However, we are unable to determine when the improvement will materialize. We do believe that the recovery will take place sometime in the future in view of the continuous effort paid by the Hong Kong government to stabilize and revive the property market and the low interest environment and the fact that more mainlanders would be interested in the local properties as analysed in the above. In view of the above, we are of the opinion that the overall position of the Group may be improved in the long run. However, conservative measures and thorough due diligence should be carried out by the management of the Company before entering into any new investments.

(b) Improvement of gearing position of the Group

According to the Interim Report 2003 and annual reports for the year ended 31 March 2002 and 15 months ended 31 March 2001, the total debt financing of the Group (including bank borrowings and other loans) as at 30 September 2002, 31 March 2002 and 2001 amounted to approximately HK$118.53 million, HK$149.29 million and HK$219.26 million respectively, representing 155.47%, 209.94% and 156.20% to the Group's net tangible assets respectively.

As stated above, the gearing ratios of the Group stood high and remained above 150% throughout the periods and year. Normally, high gearing of a company is a signal to most financial institutions, including banks, to lower internal credit rating to that company. With lower credit rating, companies can only obtain finance from banks at less favourable interest rates and terms. Such a high gearing ratio may pose obstacles for the Group's future business development. As such, it is beneficial to the Group in the long run to reduce its gearing ratio.

After Completion, the proceeds derived therefrom, after expenses, of approximately HK$49 million will be injected into the Group. Such cash inflow is expected to serve as an additional source of equity funding for the Group without involving any debt financing.

As stated in the letter from the Board, the Group intends to apply part of the net proceeds of the Subscription principally to ease the high-geared position of the Group by repaying HK$42.5 million of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, which is unsecured, interest free with no fixed repayment date. The balance of the Loan in the amount of HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion with a view that the liquidity position of the Company will not be impaired. Accordingly, a total of approximately HK$54 million of debt will be repaid by the Company upon Completion. Assuming such repayment of debts had taken place as at 30 September 2002, the gearing ratio of the Group would decrease to approximately 51.53% accordingly. However, as the Loan is interest-free, the Subscription and the Loan Repayment will not lower the interest expenses currently incurred by the Group.

Although the net cash position of the Group will be reduced by HK$5 million upon Completion and the Loan Repayment, as mentioned above, the Group's liquidity position will not be substantially affected. The Company has warranted to the Subscriber that at Completion, the total cash balances of the Group will not be less than HK$12 million. This amount will be reduced by approximately HK$5 million to not less than HK$7 million upon receipt of the Subscription proceeds and following the Loan Repayment and is sufficient for the general operation of the Group without the pressure of obtaining additional financing. As at 15 January 2003, the cash position of the Group is approximately HK$14 million.

We concur with the Directors that, upon Completion and the Loan Repayment, the high gearing position of the Group will be reduced.

(c) Finance costs

As mentioned above, the gearing ratios of the Group have remained high for the past few years (see reference as stated in the above table). According to the Interim Report 2003 and annual reports for the year ended 31 March 2002 and 15 months ended 31 March 2001, the finance costs of the Group amounted to approximately HK$1.14 million, HK$4.3 million and HK$8.96 million respectively. Over the same periods and year, total long-term debts (including bank loan and other loans) and long term debt-to-equity ratio (as calculated from total long-term debts divided by net assets value) of the Group amounted to approximately HK$115.27 million and 151.19%, HK$89.48 million and 125.83% and HK$119.86 million and 85.39% respectively. The rising long term debt-to-equity ratio implies that the finance costs will be substantially increased in the future if the long-term debts are not repaid or reduced.

Upon Completion and the Loan Repayment, the total debt of the Group will be lowered by approximately HK$54 million accompanied by a net reduction of cash balance of the Group of approximately HK$5 million. Assuming that the Loan Repayment and the receipt of net proceeds of the Subscription in the amount of approximately HK$49 million (which is added to the net asset value for the calculation of long-term debt-to-equity ratio below) had taken place on 30 September 2002, the total long-term debts and long-term debt-to-equity ratios would have been reduced to approximately HK$61.27 million representing approximately 48.92%.

Due to the fact that the Loan is interest-free, the Subscription and the Loan Repayment will not lower the interest expenses currently incurred by the Group. The overall finance cost will remain the same despite the fact that the gearing ratio would be reduced. However, an improvement in gearing position of the Group will give a better impression to banks towards future money lending to the Group. More favourable terms and conditions for future bank borrowings will likely be reached between the Group and banks with an improved indebtedness position of the Group after the Loan Repayment. We are of the opinion that although the Subscription and Loan Repayment will not reduce the finance cost of the Group, it would help to lower the future finance cost should further money borrowing is needed. However, the Group has no imminent need to obtain such financing.

(d) New Directors of the Company

As mentioned in the letter from Gold Capital, Gold Capital is an investment holding company incorporated on 12 November 2002 in the British Virgin Islands with limited liability. It is the intention of Gold Capital that, following the Completion, the Group will continue the existing businesses of property and securities investments.

As stated in the letter from Gold Capital, it is expected that all the existing Directors will resign upon Completion. Mr. Ma Kwai Leung, Joseph and Mr. Low Kim Teik will be nominated by Gold Capital to join the Board as executive Directors (the "New Executive Directors"), while Mr. Lok Shing Kwan, Sunny and Mr. Tang Ping Sum will be nominated as independent non-executive Directors.

The following is the biography of the proposed new Directors expected to comprise the Board upon Completion.

Mr. Ma Kwai Leung, Joseph, aged 50, is currently a director of Chiu Kee Company Limited, a company engaged in Hong Kong commercial and residential property investment, leasing and management. Properties currently managed by Chiu Kee Company Limited include Tai Sang Commercial Building in Wanchai, Hong Kong. Mr. Ma has about 8 years of experience in property investment, leasing and management. Mr. Ma was an executive director of Magnificent Estates Limited, a company the shares of which are listed on the main board of the Stock Exchange, for the period from 1978 to 1987. This company is principally engaged in Hong Kong property development and investment businesses, including the development and leasing of residential, commercial and factory buildings. Prior to engaging in the property investment business, Mr. Ma had over 10 years of experience in a family business in the textile industry where he gained experience in finance and general management.

Mr. Low Kim Teik, aged 63, was educated in Malaysia. He has over 10 years of experience in trading business including the supply of chemicals, textile and raw materials. From 1999 to 2001, Mr. Low was the managing director of Shanghai Underground Centre Company Limited, which was principally engaged in property investment. He is currently the managing director of Foo Yuen Estate Limited, which is principally engaged in property investment, leasing, management and development of both commercial and residential properties. Current projects include the investment in and development of the Parkview Tower in Zhongshan, the People's Republic of China.

Both of the New Executive Directors have ample experience in property investment, which could help the Group to identify new property investments with earning potentials and benefit the Group in the long run.

As mentioned in the foregoing, the Group's only source of income was the rental income which has been reducing throughout the periods or year presented in the table above. The reasons attributable to the deterioration in property investment performance were due to the global economic downturn and the burst of economic bubble since late 1997.

With reference to the occupancy information provided by the Company, the number of vacant units increased from 84 units out of a total of 122 units as of 23 March 2002 to 87 units out of a total of 120 units as of 27 September 2002. The number was further increased to 88 units out of a total of 120 units as of 5 December 2002 which was the most recent available occupancy information provided by the Company.

As stated in the letter from the Board, the Group has adopted a prudent approach in its business operations in recent years in view of the continuous decline in the property market and poor stock market sentiment. The Directors generally consider that the outlook of the property market remains uncertain and have not formed any specific strategy for the Group. It is also the intention of the Directors to maintain the existing operation of the Company by adopting the same measures they have been using in the past. We are of the opinion that under the management of the existing Directors, the Group is expected to receive a stable stream of rental income only and there will be no significant improvement in its financial position even at times of recovery of the property market.

On the contrary, in addition to the fact that the new Directors can provide impetus and new directions to the Group, the new Directors are optimistic about the recovery of property market in the future according to the letter from Gold Capital. In addition, Gold Capital intends proactively to lease out the vacant properties of the Group, including (detailed particulars of which are set out in the valuation certificate in Appendix III of this circular): various shop units, commercial units and domestic units of Cheong Lok Mansion; various domestic units of Cheong Ling Mansion, Cosmopolitan Centre and Cheong Chun Mansion and various units of Cheong Hong Mansion.

We believed that such impetus and proactiveness to be provided by the new Directors may improve the financial position of the Group after Completion and at times of property market recovery. Without the Subscription, the Group, under the prudent management approach adopted by the existing Directors, is expected to have no significant improvement in its financial position even at times of property market recovery.

By such proactive planning to lease out the vacant properties, the Group will be able to maximize the existing resources of the Company and as a result, generate better revenue to the Group.

Gold Capital also intends to renovate the internal conditions of certain properties of the Group to make them more attractive to tenants and rent out for higher rental income. According to the directors of Gold Capital, the renovation costs will be financed by using internal resources of the Group. As preliminarily estimated by Gold Capital, it expects the Group to spend approximately HK$1 million on such renovation work. However, the exact amount of such costs will be subject to the final judgement to be made by the new Directors after they have conducted a detailed inspection of the properties after Completion. Nevertheless, according to Gold Capital, such renovation costs will not be material such that it will put pressure on the liquidity position of the Company.

In relation to securities investment business, Gold Capital will, if it considers appropriate, invest in stocks in order to capitalise any possible opportunities arising from the recovery of the securities market. However, we cannot anticipate when exactly such recovery will occur as it very much depends on when the global economy is going to recover.

As stated in the letter from Gold Capital, overall, after Completion, Gold Capital will conduct a review of the business of the Group and the new management will also implement cost control measures on the operations of the Group.

The directors of Gold Capital are aware of the fact that the current operating expenses comprised principally of administrative expenses. As such, the new management intends to implement cost control measures on administrative expenses including, but not limited to: (i) relocation of the Group's principal place of business to a vacant commercial unit of the Group or a new location of lower rents; (ii) renegotiation with the existing staff for lower staff salaries and benefits before Completion; and (iii) control over regular office operating expenses.

As revealed from the table in section (1) headed "Reasons for the Subscription" above, the Group has posted losses for the year ended 31 March 2002 and 15 months ended 31 March 2001. By excluding the exceptional disposal gain of approximately HK$16.58 million, the Group also reported losses for the 6 months ended 30 September 2002. Accordingly, the Company has been slow in making investment in the past and no sign of growth expansion has been realised for the above-mentioned periods and year.

We note that the Company has made no investments in businesses in the past few years. It seems to us that this was due to the fact that the existing Directors, under the global economic downturn after the Asian financial crisis in 1997 and the guidance of Eric Edward Hotung, C.B.E., the chairman of the Company, have been adopting a fairly conservative approach towards the management of the Company. Whilst this approach is laudable, the outcome is that it might have missed some good opportunities to invest in profitable businesses. If this approach is to continue, the Company is not likely to see any major growth or expansion and it will only continue to rely on its existing properties to generate incomes for the Company. Moreover, according to the Company, in his 77th year of age, Eric Edward Hotung, C.B.E., the chairman of the Company, intends to spend increasingly more time in doing charity work besides managing the Company. Topping that, in view of the reservation in the recovery of the property and securities markets shown by the Board and the fact that the existing Directors have not formed any specific strategy for the Group and that it is their intention to maintain the existing operation of the Company by adopting the same measures they have been using in the past, accordingly, it is perhaps not likely, in our view, that the Company will register a satisfactory turn around in its financial position when the property and securities markets recover under the existing conservative management approach adopted by the Company.

Accordingly, the Subscription provides a good opportunity for the Company to improve its financial position since the New Executive Directors can provide the Group with the crucial impetus to set out necessary strategy, plans and future direction for the Group to take advantage of the recovery of the property market, which is unarguably an important driving force to improve the Group's financial position in the future.

We concur with the Directors that the Subscription provides an opportunity for the Group to improve its financial position by reducing its gearing level through the repayment of part of the Loan which is interest-free. Moreover, we note that there is a divergence of opinions as to the property market from the letter of the Board and that of Gold Capital. It seems that the Board has reservations as to when the property market in Hong Kong will turn around. Moreover, the Board, which has adopted a prudent management approach, has not formulated any specific strategy or new plans for the Group. According to the Company, it is also the intention of the Directors to maintain the existing operation of the Company by adopting the same measures they have been using in the past. On the contrary, Gold Capital has shown optimism and has proposed, as mentioned in its letter, a more proactive approach by laying down plans to lease out vacant properties and implement cost control measures, which are evidences of impetus and new directions to be provided by the new Directors. With such plans put forward by Gold Capital, we believe the Company will benefit from its optimism and its positive attitude towards the existing assets of the Company. However, it will not be until such plans are put in place that the Shareholders could expect to obtain more detailed information as to how those plans are to be carried out. Taking all these factors into consideration, we are of the view that the Subscription together with the Loan Repayment are in the interests of the Company and the Shareholders as a whole.

(2) Alternative means of financing

In order to capture the future business opportunity in property investment and repay the indebtedness of the Group as detailed in the section headed "Reasons for the Subscription" above, the Directors have considered various means of financing as discussed below.

(a) Bank borrowings

The Directors consider that bank borrowing is not preferable as the interest rates involved will likely be higher than market rates and the terms for the borrowings will be less favourable to the Group in view of the highly-geared position of the Group at present as stated in the foregoing.

(b) Rights issue

The Directors have also considered equity fund raising by means of a rights issue. However, having considered the following reasons that:

– an underwriter is normally required to underwrite the whole issue and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter;

– the market risk associated with a rights issue is normally higher as a rights issue timetable would normally take a longer time to complete than that of a new issue of shares; and

– a rights issue would place extra and undue financial burden on the Shareholders,

the Directors considered a rights issue is not appropriate in this regard.

(c) Conclusion

In view of the drawbacks of the other alternatives discussed above, we concur with the Directors that the Subscription would provide the most feasible and cost-effective fund raising alternative to the Group.

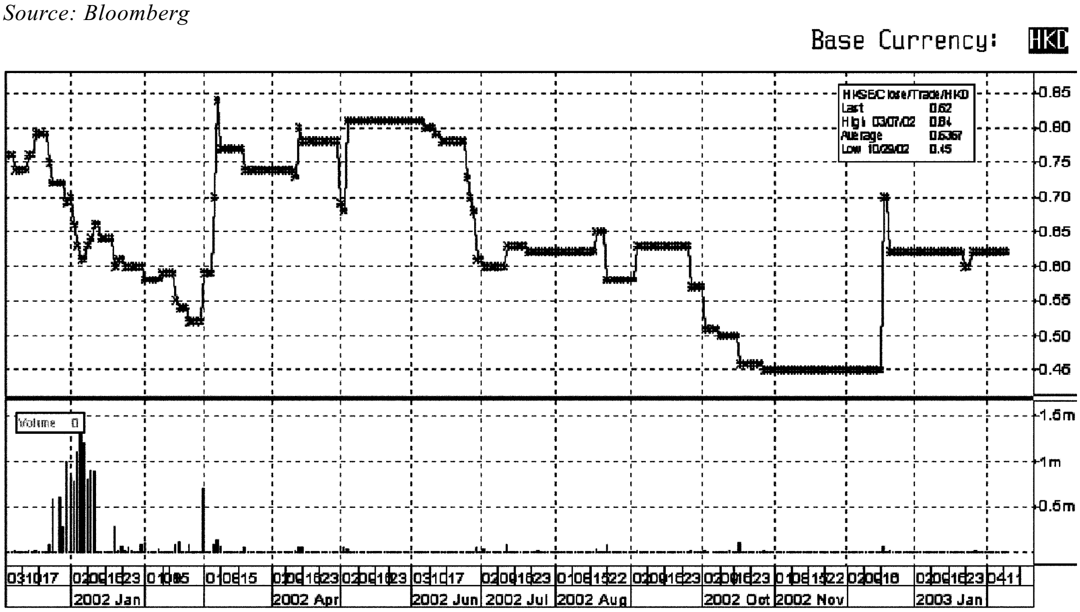
(3) Terms of the Subscription

Pursuant to the Subscription Agreement, which is conditional upon, among other things, the granting of Whitewash Waiver by the Executive and approval of the Whitewash Waiver by the Independent Shareholders, Gold Capital agreed to subscribe for 176,500,000 new Shares, at an issue price of HK$0.31 per Subscription Share, a discount of approximately 31.1% to the closing price of HK$0.45 per Share as quoted on the Stock Exchange on 11 December 2002, being the last trading day in the Shares on the Stock Exchange prior to the publication of the Announcement, for a total consideration of HK$54,715,000. The Consideration amounting to HK$54,715,000 has been paid in full by the Subscriber on 12 December 2002 to the Company's solicitors, to hold as stakeholders for and on behalf of the Company and the Subscriber pending Completion.

(a) Comparison between the Subscription Price and the market price per Share

The chart below shows the daily historical closing prices and trading volume of the Shares traded on the Stock Exchange starting from December 2001, which was one year prior to the month of release of the Announcement, to 11 December 2002, which was the last trading day prior to the release of the Announcement, and the latest period up to and including the Latest Practicable Date (the "Review Period").

Source: Bloomberg



The following table depicts the historical closing prices on the last trading day and total trading volume of the Shares of each month on the Stock Exchange starting from December 2001, which was one year prior to the month of release of the Announcement, up to 11 December 2002 which was the last trading day prior to the release of the Announcement and on 17 December 2002 which was the first trading day following the release of the Announcement and on the Latest Practicable Date.

	Closing Share price *(HK$)*	**Total trading volume** *(Shares)*	**Issued share capital** *(Shares)*	**% traded to issued Shares**
Dec 01	0.69	2,630,000	108,660,000	2.4%
Jan 02	0.6	8,560,000	108,660,000	7.9%
Feb 02	0.52	475,670	108,660,000	0.4%
Mar 02	0.74	1,060,000	108,660,000	1.0%
Apr 02	0.78	120,000	108,660,000	0.1%
May 02	0.81	156,000	117,660,000	0.1%
Jun 02	0.61	50,000	117,660,000	0.0%
Jul 02	0.62	166,000	117,660,000	0.1%
Aug 02	0.58	130,250	117,660,000	0.1%
Sep 02	0.57	40,000	117,660,000	0.0%
Oct 02	0.45	172,000	117,660,000	0.1%
Nov 02	0.45	–	117,660,000	0.0%
On 11 Dec 02	0.45	–	117,660,000	0.0%
On 17 Dec 02	0.70	64,000	117,660,000	0.0%
On Latest Practicable Date	0.62	–	117,660,000	0.0%

As shown in the above chart and table, the market price of the Shares has been dropping since December 2001 with only a few inceptions of rebound from March to May in year 2002. The Share price slumped to a new low of HK$0.45 since the end of December 2001 and until 11 December 2002, being the last trading day in the Shares on the Stock Exchange prior to the publication of the Announcement. The decrease in the market price of the Shares may be attributable to the global economic downturn and the fact that no new investments had been made by the existing Directors that could stimulate the Share prices before the release of the Announcement during the Review Period. Since the resumption of the trading of the Shares and up to the Latest Practicable Date, the Shares were traded between the range of HK$0.62 to HK$0.70, representing a respective increment of about 37.78% to 55.56% over the closing price of HK$0.45 immediately before the Announcement.

The closing price of HK$0.45, as quoted on 11 December 2002, being the last trading day prior to the release of the Announcement, represented a decrease of approximately 44% from the closing price of HK$0.81 in the end of May 2002, which was the one-year high prior to 11 December 2002, and a decrease of approximately 35% from the closing price of HK$0.69 in the end of December 2001.

The Subscription price of HK$0.31 per Subscription Share represents:

(i) a discount of approximately 31.1% to the closing price of HK$0.45 per Share as quoted on the Stock Exchange on 11 December 2002, being the last trading day in the Shares on the Stock Exchange prior to the publication of the Announcement;

(ii) a discount of approximately 31.1% to the average closing price of HK$0.45 per Share as quoted on the Stock Exchange over the last 10 trading days leading up to and including 11 December 2002;

(iii) a discount of approximately 31.1% to the average closing price of HK$0.45 per Share as quoted on the Stock Exchange over the last 30 trading days leading up to and including 11 December 2002; and

(iv) a discount of about 50.0% to the closing price of HK$0.62 per Share as at the Latest Practicable Date.

(b) Analysis of trading volume

It is noted from the above table that the Shares were in general thinly traded on the Stock Exchange since December 2001, except for in January 2002 with no special reasons. Thin trading volume of the Shares represents low liquidity and is a sign of low attractiveness of that security to investors. In general, securities with thin trading volume always bear a lower value to investors than those with active trading assuming all other factors concerning the securities are the same.

(c) Comparison between the Subscription Price to the net tangible asset value per Share

As stated in the letter from the Board, the Subscription price represents a discount of approximately 52.31% to the net asset value per Share of approximately HK$0.65 based on the unaudited net asset value of the Group of approximately HK$76.24 million as at 30 September 2002 and 117,659,267 Shares in issue as at the date of the Announcement.

As mentioned in the "Statement of Unaudited Pro Forma Adjusted Consolidation Net Tangible Assets Upon Completion" in Appendix I of this circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group before the Subscription (the "Adjusted Net Tangible Asset Value") is approximately HK$ 35.70 million in total or about HK$0.30 per Share. Accordingly, the Subscription Price per Share of HK$0.31 represents a premium of approximately 3% to the Adjusted Net Tangible Asset Value of approximately HK$0.30 per Share as mentioned above.

(d) Conclusion

As analysed in the section headed "Reasons for the Subscription" above, by introducing the new investor to the Group, the capital base of the Group will be enlarged and the Loan owing to Eric Edward Hotung, C.B.E., a Director and substantial shareholder of the Company, will be repaid. In addition, the Subscription provides a good opportunity for the Group and its shareholders to be led by a new management team with ample experience in property investment that can provide impetus and new direction to the Group. Under the management of the new Directors, as opposed to the conservative approach adopted by the existing Directors, the Group may see an entirely new aspect. In order to be able to attract potential investors such as the Subscriber to invest in the Company, a discount to the market price of the Shares is understandable given the fact that the Subscription price offers a premium over the Adjusted Net Tangible Asset Value per Share to the Shareholders.

Despite the fact that the Hong Kong securities market has been unstable and worked under a bearish trading atmosphere from late 2001 onwards, the Company has made no new investment and has not announced any positive news with regard to new projects to be entered into to stimulate the share price of the Company. As such, the decreasing market price of the Shares is an indication of low expectation anticipated by investors on the performance of the Shares. The fact, together with the thin trading volume over the previous one year before the date of the Announcement has reflected a low attractiveness to investors.

Accordingly, we are of the view that the Subscription price of HK$0.31 is fair and reasonable so far as the Independent Shareholders are concerned given that:

- the market price of the Shares was decreasing most of the time before the release of the Announcement during the Review Period;
- the trading volume of the Shares was thin during the Review Period; and
- there is also a premium of approximately 3% of the Subscription Price to the Adjusted Net Tangible Asset Value per Share of HK$0.30.

(4) Effects of the Subscription

(i) Effect on net tangible asset value

As shown in the paragraph headed "Statement of Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets Upon Completion" in Appendix I of this circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group before the Subscription was approximately HK$35.70 million or about HK$0.30 per Share. Upon Completion, the total value and value per Share of the pro forma unaudited adjusted consolidated net tangible assets of the Group would increase by 136% to approximately HK$84.40 million and decrease by 3% to approximately HK$0.29 per Share respectively.

The Subscription will therefore lead to an insignificant dilution in the net asset backing per Share.

(ii) Effect on liquidity and cash position

According to the unaudited Interim Report 2003 of the Company, the Group has cash and cash equivalents, working capital (as calculated from current assets reduced by current liabilities) and current ratio (as calculated from current assets divided by current liabilities) of approximately HK$25.52 million, HK$21.18 million and 3.34 times respectively before Completion as at 30 September 2002. Upon Completion and assuming the net proceeds (after expenses) of approximately HK$49 million were obtained by the Company and the Loan Repayment took place as at 30 September 2002, the cash position, working capital and current ratio would be decreased to approximately HK$20.52 million, HK$16.18 million and 2.79 times respectively, representing a decrease of 19.59%, 23.61% and 16.47% respectively.

However, as analyzed in section (1) headed "Reasons for the Subscription", upon Completion, the Group's financial condition will be strengthened through the improvement of gearing position, which in turn creates a more healthy foundation for the Group to be able to capture the business investment opportunities arising from property and/or securities markets in the future. As mentioned in the same section, the introduction of the New Executive Directors provides the all-important impetus and drive to the Group to improve its financial position by reducing the cost of operation and maximizing its revenue and cash flow. Moreover, as mentioned in the foregoing, the New Executive Directors are experienced in property investment, which will be instrumental to the Company to ride on the recovery of Hong Kong's property market which is expected to come in the future. As such, it is expected that the Group's financial position and also its liquidity and cash position will likely be improved in the future. After considering all these potential advantages to the Group, we are of the view that the temporary drop in liquidity and cash position to be acceptable so far as the Independent Shareholders are concerned in this circumstance.

(iii) Gearing position

As discussed in the previous section, according to the unaudited information from the Interim Report 2003, the Group had total outstanding debts of about HK$118.53 million (including bank borrowings and other loans) and net tangible assets of approximately HK$76.24 million. Based on such information, the Group's gearing ratio (as calculated from total debts divided by net tangible assets) amounted to approximately 155.47%. After Completion and payment of relevant expenses, the net tangible assets will be increased by the amount of net proceeds of approximately HK$49 million to HK$125.24 million and the total outstanding debts will be reduced by approximately HK$54.0 million to approximately HK$64.53 million, of which approximately HK$42.5 million will be paid out of the net proceeds of the Subscription and approximately HK$11.5 million will be repaid by the Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The gearing of the Group will then be substantially improved to approximately 51.53% by 66.86%.

Accordingly, the Subscription and the Loan Repayment can reduce the gearing level by a larger extent than the reduction on the cash and cash equivalents, working capital and current ratios of the Group. Such a substantial improvement in gearing ratios can benefit the Group in the long run if bank loans are to be raised. However, as mentioned earlier in this letter, the Group has no imminent need for such financing. On the contrary, as mentioned earlier in this letter, the reduction in cash and cash equivalents, working capital and current ratios will not adversely affect the liquidity position of the Group that the reduced cash balance of not less than HK$7 million (or not less than HK$6 million after considering the preliminarily estimated renovation costs of HK$1 million from Gold Capital) upon the receipt of Subscription proceeds and immediately following the Loan Repayment can sustain the general operation of the Group for at least 17 months (or for at least 14 months after deducting the aforesaid renovation costs).

(iv) Earnings

With a more promising financial condition as may be introduced by a reduction in the gearing level through repaying part of the Group's indebtedness and a new board of Directors with ample experience in property investment who had also indicated plans to increase the income of the Group by implementing cost control measures and the leasing out of the vacant properties after the Completion, the Group is expected to be placed in a better position to capture the future opportunities of the property and/or securities investment businesses should opportunities arise.

(v) Dilution on the shareholding of the Independent Shareholders

As revealed in the section headed "Shareholding structure" in the letter from the Board, the public shareholders of the Company currently hold about 47.91% of the issued share capital of the Company. Upon Completion, this percentage will be diluted to about 19.16%, and Gold Capital and its Concert Parties will become the controlling shareholders of the Company interested in approximately 60% of the issued share capital of the Company as enlarged by the Subscription Shares.

As mentioned earlier in this letter, upon Completion and Loan Repayment, the financial position of the Group will be improved by a reduction in its gearing level through the repayment of part of the Group's indebtedness. As mentioned earlier in our letter, more favourable terms and conditions for future bank borrowings will likely be reached between the Group and banks with an improved indebtedness position, which will enable the Group to raise debt financing at cheaper costs to capture any business opportunities in property and/or securities markets in the future.

In addition, the introduction of the New Executive Directors will provide the Group with impetus and new direction. By reducing the cost of operation and maximizing its revenue and income stream, the Group's financial position may be improved in the future. Moreover, as mentioned in the foregoing, the New Executive Directors are experienced in property investment, which will be beneficial to the Group in capturing new property investment opportunities which may generate income to the Group in the future.

Taking all the above-mentioned factors into consideration, we are of the view that the Group's financial position will likely be improved after Completion and the Loan Repayment. However, Shareholders should note that the effect of the Subscription and the Loan Repayment on the future financial position of the Group will not be reflected until the actual results are announced in the future. In view of the favourable impacts on the prospect of the Group after the Subscription, the potential dilution effect on the shareholding of the public shareholders of the Company is considered to be acceptable so far as the Independent Shareholders are concerned.

It should be noted that the diluted interest of public shareholders to 19.16% upon Completion would put the Company in a position that it would fail to maintain the minimum public float of 25% according to Rule 8.08 of the Listing Rules. However, according to the letter from the Gold Capital, it is the intention of Gold Capital and the future Directors of the Company to maintain the listing of the Shares on the Stock Exchange after Completion. Accordingly, the future Directors, the Subscriber and the Company have jointly and severally undertaken to the Stock Exchange to ensure that the public float will not be less than 25% immediately after Completion.

According to the letter from Gold Capital in this circular, to ensure that the public float will not be less than 25%, it is the intention of Gold Capital to place down its shareholding interest in the Company to one or more independent third parties not connected with any Director, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective Associates immediately following Completion. However, according to Gold Capital, no firm placing down arrangements have been made at the Latest Practicable Date. As such, we are unable to comment on the effect arising from the future placing down of Shares without making reference to the actual arrangement.

(vi) Market price after the resumption of trading

As shown in section 3(a) headed "Comparison between the Subscription Price and the market price per Share" above, the closing price per Share has gone up from HK$0.45 per Share on 11 December 2002, being the last trading date in the Shares on the Stock Exchange prior to the publication of the Announcement (the "Publication"), to HK$0.70 per Share on 17 December 2002, being the first trading date after the Publication, representing a substantial increase of more than 55.56%. Such significant rebound in trading price of the Shares was come after the trading price having remained the same at the one-year low prior to 11 December 2002, which serves as a strong indication and evidence that the Subscription is well-received by the market.

(vii) Conclusion

The aggregate percentage shareholding of the existing Shareholders, the net tangible asset value per Share and the liquidity and cash position will be reduced as a result of the Subscription. However, taking into account the benefits to be brought in to the Company by the Subscription as mentioned in the section captioned "Reasons for the Subscription" above and the drawback of the alternative means of financing, we are of the opinion that the Subscription is, on balance, in the interests of the Company and the Shareholders as a whole.

(6) The Whitewash Waiver

Before Completion, Gold Capital has no interest in the Shares. Immediately upon Completion, Gold Capital and its Concert Parties will be interested in about 60% of the enlarged issued share capital of the Company. Under Rule 26 of the Takeovers Code, Gold Capital and its Concert Parties will be obliged to make an unconditional mandatory general offer for all the issued securities of the Company other than those already owned or agreed to be acquired by Gold Capital or its Concert Parties.

An application has been made to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver which is, however, still subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll.

It should be noted that pursuant to the Subscription Agreement, if the Whitewash Waiver is not granted by the Executive and/or approved by the Independent Shareholders, the Subscription will not proceed. The granting of the Whitewash Waiver will, therefore, be necessary for the Group and all the Shareholders, including the Independent Shareholders, to take the opportunity to enjoy the benefits arising from the Subscription as stated above. However, Shareholders should also note the decrease in cash balance and dilution effect on net tangible assets per Share and the shareholding of the Independent Shareholders brought about by the Subscription and the Loan Repayment. Nevertheless, having taken into account of the reasons mentioned in the foregoing, we are of the opinion that the benefits in the long run can outweigh the downside effect arising from the Subscription and the Loan Repayment and that the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we consider it would be in the interests of the Independent Shareholders to vote in favour of the grant of the Whitewash Waiver.

(7) Special Deal Consent

As mentioned earlier in this letter, upon Completion, the net proceeds of the Subscription in the amount of approximately HK$49 million will be applied towards the repayment of part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company. The balance of the Loan in the amount of HK$11.5 million will be repaid by the

Company by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. The Loan Repayment constitutes a special deal under Rule 25 of the Takeovers Code and hence requires the Special Deal Consent.

An application has been made to the Executive for the Special Deal Consent. The Executive has indicated that such consent will be granted subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of a poll of the Loan Repayment.

As mentioned in the foregoing, the Group was in high gearing position as of 30 September 2002. Upon Completion, part of the Loan owing to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, would be repaid by utilising part of the net proceeds of the Subscription, whereas the balance of the Loan which amounted to HK$11.5 million will be repaid by the Group by utilising its cash balance which is anticipated by the Directors to be not less than HK$12 million at Completion. As a result, no amount will be owed by the Group to Eric Edward Hotung, C.B.E.. Following the Loan Repayment, the gearing position will be improved and, most importantly, the uncertainty on when the Loan will be demanded by Eric Edward Hotung, C.B.E., will be eliminated despite the fact that the net cash position of the Group will drop by HK$5 million. The Directors are of the view that the above arrangements will have a favourable impact on the Group to obtain future financing in the forms of both debt and equity if necessary.

Although the net cash position of the Group will be reduced by HK$5 million upon Completion and the Loan Repayment, as mentioned above, the Group's liquidity position will not be substantially affected. The Company has warranted to the Subscriber pursuant to the Subscription Agreement that at Completion, the total cash deposits of the Group will not be less than HK$12 million, which will be reduced by approximately HK$5 million to not less than HK$7 million upon receipt of the Subscription proceeds and following the Loan Repayment and is sufficient for general operation of the Group without the pressure of obtaining additional financing.

As advised by the Directors, the total outstanding debts as of 30 September 2002 were about HK$118.53 million mainly from loans advanced by two banks and the loan from Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company. The loans advanced by these two banks were interest-bearing and secured by investment properties of the Company while the Loan was interest-free and unsecured. Moreover, as mentioned earlier in this letter, Eric Edward Hotung, C.B.E. has indicated his intention to demand partial repayment of the Loan any time on or after 25 May 2003 irrespective of whether the Subscription will proceed or not. This will create an uncertainty as to when the Loan will be required to be settled, which in turn will place pressure on the future financial stability of the Group. In view of such, it is reasonable to repay the Loan when the Company is in a position to do so after the Subscription in order to eliminate such uncertainty to the Group. In addition, consents have been obtained from these two banks on the Loan Repayment.

Taking all these factors into account, we concur with the Directors that the Loan Repayment is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

(8) Recommendation

In forming our recommendation to the Independent Board Committee in respect of the terms of the Subscription, the Whitewash Waiver and the Loan Repayment, we have taken into account all the factors and reasons set out above, in particular:

- dilution on the shareholding of the Independent Shareholders from 47.91% to 19.16% of the then issued share capital of the Company;

- the Subscription Price being a discount to the market prices of the Shares;

- a premium on the Subscription price to the Adjusted Net Tangible Asset Value per Share;

- a favourable market signal towards the Subscription as evidenced by the rebound in market price immediately after the resumption of trading following the publication of the Announcement;

- the improvement in the gearing position of the Group;

- elimination of the uncertainty on when the Loan will be demanded by Eric Edward Hotung, C.B.E., on or after 25 May 2003 that will place pressure on the financial stability and condition of the Group;

- the improvement in the financial position of the Group; and

- the introduction of a new board of Directors with ample experience in property investment and who are positive towards the property market outlook accompanied by their plans to increase income by leasing out the vacant properties and implementing cost control measures and are considered to be able to provide impetus and new directions to the Group which is currently under the management of existing Directors who has adopted prudent management approach, is uncertain towards the property market outlook and have no specific plan to improve the financial position of the Group.

However, Shareholders should be reminded of the fact that although the Subscription, Whitewash Waiver and the Loan Repayment will have an immediate effect on the gearing level, the new management of the Company might require some time to get familiar with the Group's overall business operation and to consider any new business investment opportunities that might generate future income and benefit the Shareholders in the long run. Nevertheless, we are of the view that the introduction of the new board of Directors will provide impetus to the direction of the Company in the future. We strongly recommend the new board of Directors to carry out appropriate measures and thorough due diligence before entering into any new investments opportunities. Nevertheless, having considered the principal factors and reasons set out above, we conclude, on balance, that the terms of the Subscription, the Whitewash Waiver and the Loan Repayment are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution in relation to the Subscription, the Whitewash Waiver and the Loan Repayment to be proposed at the EGM.

Yours faithfully,
For and on behalf of
CSC Asia Limited
Andrew Chiu
Managing Director & Head of Investment Banking

I. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion are set out as follows:

		HK$
Authorised:		
200,000,000	Shares as at the Latest Practicable Date	20,000,000
300,000,000	Shares to be created pursuant to the increase in authorised share capital	30,000,000
500,000,000	Shares	50,000,000
Issued and fully paid:		
117,659,267	Shares as at the Latest Practicable Date	11,765,927
176,500,000	Subscription Shares to be issued upon Completion	17,650,000
294,159,267	Shares	29,415,927

All of the Shares currently in issue rank pari passu in all respects with each other, including as regard to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange.

Subject to Completion, the Company will issue 176,500,000 new Shares to Gold Capital pursuant to the Subscription Agreement at HK$0.31 per Subscription Share. The Subscription Shares when issued will rank pari passu in all respects with the Shares in issue on the date of Completion, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after Completion.

There are no convertible securities, options, warrants and derivatives in respect of Shares currently in issue.

On 7 May 2002, 9,000,000 new ordinary shares were issued at HK$0.58 each through entering into a placing agreement with a placing agent to an independent party. The net cash proceeds on the issuance were approximately HK$5,052,507 and were used to provide additional general working capital of the Group. Save as disclosed above, no securities have been issued since 31 March 2002, the date to which the latest practicable audited financial statements were made up to.

II. FIVE YEAR SUMMARY OF FINANCIAL RESULTS, AND ASSETS AND LIABILITIES

A summary of the published results, and assets and liabilities of the Group for the last five financial years/period, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts of each year/period in the five year financial summary have been adjusted for the retrospective changes in accounting policy affecting dividends.

Pursuant to the board resolution dated 12 December 2000, the Group has changed its financial period end from 31 December to 31 March, commenced on 31 March 2001, in order to bring its accounting year end in line with the year of tax assessment in Hong Kong.

RESULTS

	Year ended 31 March 2002	15 months ended 31 March 2001	Year ended 31 December 1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	(32,148)	(42,682)	99,002	32,540	45,036
EXCEPTIONAL ITEMS	–	–	–	–	116,876
PROFIT/(LOSS) BEFORE TAX	(45,679)	(198,430)	69,120	19,516	150,139
TAX	578	(9)	(613)	347	(2,429)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(45,101)	(198,439)	68,507	19,863	147,710
EARNINGS/(LOSS) PER SHARE (in HK cents)	(41.5)	(182.6)	62.9	18.2	134.0
DIVIDEND PER SHARE (in HK cents)	–	–	30	20	81

There are no extraordinary item and minority interest noted for the five years/period ended 31 March 2002.

ASSETS AND LIABILITIES

	31 March 2002	**31 March 2001**	**31 December 1999**	**31 December 1998**	**31 December 1997**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
NON-CURRENT ASSETS	196,848	221,447	240,630	248,938	326,738
CURRENT ASSETS	27,089	142,912	260,509	186,759	165,357
CURRENT LIABILITIES	(62,155)	(102,677)	(103,691)	(75,504)	(16,608)
NET CURRENT ASSETS/ (LIABILITIES)	(35,066)	40,235	156,818	111,255	148,749
TOTAL ASSETS LESS CURRENT LIABILITIES	161,782	261,682	397,448	360,193	475,487
NON-CURRENT LIABILITIES	(90,672)	(121,315)	(5,696)	(5,208)	(5,249)
NET ASSETS	71,110	140,367	391,752	354,985	470,238

During the year ended 31 March 2002, the Group adopted the revised SSAP 9 "Events after the balance sheet date". To comply with this revised SSAP, prior year adjustments have been made to reclassify the proposed final dividends for the years ended 31 December 1997, 1998 and 1999, which were recognised as current liabilities at these prior year ends, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce the Group's current liabilities and increase the reserves previously reported as at 31 December 1997, 1998 and 1999 by HK$55,830,000, HK$21,819,000 and HK$32,612,000, respectively.

III. SUMMARY OF FINANCIAL RESULTS FOR THE TWO YEARS ENDED 31 MARCH 2002

The following financial information has been extracted from the audited consolidated profit and loss accounts of the Group for the 15 months ended 31 March 2001 and the year ended 31 March 2002, the audited consolidated statement of recognised gains and losses of the Group for 15 months ended 31 March 2001 and the year ended 31 March 2002, the audited consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2001 and 2002 and the consolidated cash flow statements of the Group for the 15 months ended 31 March 2001 and the year ended 31 March 2002:

Consolidated Profit and Loss Account

	Notes	**Year ended 31 March 2002** *HK$'000*	**15 months ended 31 March 2001** *HK$'000*
TURNOVER	6		
Results from securities trading		(39,253)	(52,410)
Gross rental income from investment properties		7,105	9,728
		(32,148)	(42,682)
Rental costs		(841)	(1,551)
Gross loss		(32,989)	(44,233)
Other revenue	6	1,486	5,455
Administrative expenses		(8,304)	(17,909)
Other operating expenses		(1,591)	(3,549)
Unrealised holding gains/(losses) on listed investments		19	(129,230)
LOSS FROM OPERATING ACTIVITIES	7	(41,379)	(189,466)
Finance costs	8	(4,300)	(8,964)
LOSS BEFORE TAX		(45,679)	(198,430)
Tax	11	578	(9)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12, 23	(45,101)	(198,439)
LOSS PER SHARE – basic (HK cents)	13	(41.5)	(182.6)

Consolidated Statement of Recognised Gains and Losses

	Notes	**Year ended 31 March 2002** *HK$'000*	**15 months ended 31 March 2001** *HK$'000*
Deficit on revaluation of investment properties	14, 23	(24,254)	(16,346)
Exchange differences on translation of the financial statements of a foreign entity	23	98	(2,653)
Net losses not recognised in the profit and loss account		(24,156)	(18,999)
Net loss from ordinary activities attributable to shareholders		(45,101)	(198,439)
Total recognised gains and losses		(69,257)	(217,438)

Balance Sheets
31 March

		Group		Company	
		2002	**2001**	**2002**	**2001**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Fixed assets	14	196,848	221,447	–	–
Interests in subsidiaries	15	–	–	71,273	140,219
		196,848	221,447	71,273	140,219
CURRENT ASSETS					
Short term investments	16	2,026	122,818	–	–
Accounts receivable	17	293	8,437	10	10
Other receivables and deposits		2,026	2,711	243	109
Cash and cash equivalents	18	22,744	8,946	178	340
		27,089	142,912	431	459
CURRENT LIABILITIES					
Tax payable		–	790	–	–
Accruals and other liabilities		2,346	2,487	594	618
Bank and other borrowings	19	59,809	99,400	–	–
		62,155	102,677	594	618
NET CURRENT ASSETS/ (LIABILITIES)		(35,066)	40,235	(163)	(159)
TOTAL ASSETS LESS CURRENT LIABILITIES		161,782	261,682	71,110	140,060
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	20	3,909	4,287	–	–
Other non-current liabilities	21	86,763	117,028	–	–
		90,672	121,315	–	–
		71,110	140,367	71,110	140,060
CAPITAL AND RESERVES					
Issued capital	22	10,866	10,866	10,866	10,866
Reserves	23	60,244	129,501	60,244	129,194
		71,110	140,367	71,110	140,060

Consolidated Cash Flow Statement

	Notes	Year ended 31 March 2002 HK$'000	15 months ended 31 March 2001 HK$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	24(a)	87,601	(198,725)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		659	2,631
Interest paid		(4,300)	(8,964)
Dividends paid		–	(32,612)
Net cash outflow from returns on investments and servicing of finance		(3,641)	(38,945)
TAX			
Hong Kong profits tax paid		(212)	–
Overseas taxes paid		–	(9)
Taxes paid		(212)	(9)
INVESTING ACTIVITIES			
Purchases of fixed assets		–	(1,078)
Net proceeds from disposal of an investment property		–	1,198
Net cash inflow from investing activities		–	120
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		83,748	(237,559)
FINANCING ACTIVITIES			
Repayment of bank loans	24(b)	(309)	(297)
Repurchase of shares	23	–	(430)
Loans from a director	24(b)	–	115,572
Net cash inflow/(outflow) from financing activities		(309)	114,845
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		83,439	(122,714)

Consolidated Cash Flow Statement (continued)

	Year ended 31 March 2002 HK$'000	15 months ended 31 March 2001 HK$'000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	83,439	(122,714)
Cash and cash equivalents at beginning of year/period	(90,174)	32,883
Effect of foreign exchange rate changes, net	19	(343)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	(6,716)	(90,174)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,227	2,137
Time deposits	20,517	6,809
Bank overdrafts	(29,460)	(49,792)
Bank loans with original maturity less than three months	–	(49,328)
	(6,716)	(90,174)

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE REORGANISATION

Cosmopolitan International Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability on 26 March 1991. Pursuant to a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance (the "Scheme") which became effective on 12 June 1991, the Company became the holding company of Cosmopolitan Properties and Securities Limited ("CPS"), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). With effect from 12 June 1991, the Company was listed on the Stock Exchange in place of CPS.

2. CORPORATE INFORMATION AND UPDATE

The registered office of business of the Company is located at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- Securities trading
- Property investment

The Group had net current liabilities of HK$35,066,000 as at 31 March 2002 (2001: net current assets of HK$40,235,000). Subsequent to the balance sheet date, as more fully described in note 27, the Group obtained a new bank loan and completed a private placement, which generated net cash proceeds of approximately HK$60,000,000 and HK$5,090,000, respectively. The directors are of the opinion that, with the above measures taken to date, the Group will have sufficient cash resources to meet its future working capital and other financing requirements and, accordingly, have prepared the financial statements on a going concern basis.

3. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 25 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 12 and 23 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

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

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

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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

Related parties

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

Impairment of assets

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

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

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

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life of four years or over the lease period of the asset, whichever is shorter.

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Operating leases

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

Short term investments

Short term investments are investments in equity securities held for trading purposes. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the year in which they arise.

Cash equivalents

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

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

(a) from securities trading, on the trade date basis, with gains and losses on investments being calculated on the average cost basis;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(d) dividend income, when the right to receive payment has been established; and

(e) from the disposal of investment properties, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the bye-laws of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 12 and 23 to the financial statements.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund Exempted ORSO retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. When an employee leaves the Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the securities trading segment invests in equity securities listed on global stock markets; and

(b) the property investment segment invests in residential units and office space for their rental income potential.

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

(a) Business segments

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

Group	Securities trading		Property investment		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	(39,253)	(52,410)	7,105	9,728	–	–	(32,148)	(42,682)
Dividend income from listed investments	670	1,107	–	–	–	–	670	1,107
Net proceeds from disposal of an investment property	–	–	–	1,198	–	–	–	1,198
Unrealised holding gains/ (losses) on listed investments	19	(129,230)	–	–	–	–	19	(129,230)
Allocated expenses	(392)	(1,655)	(2,039)	(3,429)	–	–	(2,431)	(5,084)
Segment results	(38,956)	(182,188)	5,066	7,497	–	–	(33,890)	(174,691)
Interest income							659	2,631
Other income							157	519
Unallocated expenses							(8,305)	(17,925)
Loss from operating activities							(41,379)	(189,466)
Finance costs							(4,300)	(8,964)
Loss before tax							(45,679)	(198,430)
Tax							578	(9)
Net loss from ordinary activities attributable to shareholders							(45,101)	(198,439)
Segment assets	2,059	130,844	200,555	225,357	–	–	202,614	356,201
Unallocated assets							21,323	8,158
Total assets							223,937	364,359
Segment liabilities	165,191	237,708	22,245	22,653	(35,328)	(37,134)	152,108	223,227
Unallocated liabilities							719	765
Total liabilities							152,827	223,992
Other segment information:								
Depreciation	–	–	423	605	–	–	423	605
Deficit on revaluation	–	–	24,254	16,346	–	–	24,254	16,346

(b) Geographical segments

The following table present revenue, loss and certain asset information for the Group's geographical segments.

Group	USA		Hong Kong		United Kingdom		Corporate and Other		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	(34,844)	(49,950)	2,696	7,268	–	–	–	–	(32,148)	(42,682)
Segment results	(31,211)	(164,617)	(13,497)	(33,491)	(393)	(331)	–	–	(45,101)	(198,439)
Other segment information:										
Segment assets	19,175	81,912	165,296	256,897	23,821	24,753	15,645	797	223,937	364,359

6. TURNOVER AND REVENUE

Turnover represents the net results from securities trading and gross rental income received and receivable from investment properties during the year/period.

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

	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Turnover		
Results from securities trading	(39,253)	(52,410)
Gross rental income from investment properties	7,105	9,728
	(32,148)	(42,682)
Other revenue		
Interest income	659	2,631
Dividend income from listed investments	670	1,107
Net proceeds from disposal of an investment property	–	1,198
Other income	157	519
	1,486	5,455

7. LOSS FROM OPERATING ACTIVITIES

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

	Year ended 31 March 2002 *HK$'000*	15 months ended 31 March 2001 *HK$'000*
Depreciation	423	605
Minimum lease payments under operating leases of land and buildings	931	2,305
Auditors' remuneration	877	998
Staff costs (excluding directors' remuneration – note 9):		
Salaries and other benefits	2,364	6,871
Pension scheme contributions	87	129
Less: Forfeited contributions	(84)	(74)
Net pension contributions *	3	55
Total staff costs	2,367	6,926
Exchange (gains)/losses, net	(16)	503
Gain on disposal of an investment property	–	(1,103)
Net rental income	(6,264)	(8,177)

* *At 31 March 2002, the Group had no forfeited provident fund contributions available to reduce its provident fund contributions in future years (period ended 31 March 2001: nil).*

8. FINANCE COSTS

	Group	
	Year ended 31 March 2002 *HK$'000*	15 months ended 31 March 2001 *HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	4,300	8,964

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

	Group	
	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Independent non-executive directors – Fees	100	125
Executive directors:		
Fees	25	31
Salaries and other benefits	429	507
Pension scheme contributions	20	24
	574	687

The remuneration of each of the directors was below HK$1,000,000 for the year/period ended 31 March 2002 and 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (period ended 31 March 2001: nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (period ended 31 March 2001: one) director, details of whose remuneration are set out in note 9 above. Further details of the remuneration of the remaining four (period ended 31 March 2001: four) non-director, highest paid employees are as follows:

	Group	
	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,421	2,494
Pension scheme contributions	40	51
	1,461	2,545

The remuneration of each of these non-director, highest paid employees was below HK$1,000,000 for the year/period ended 31 March 2002 and 2001.

11. TAX

No Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (period ended 31 March 2001: nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 March 2002	15 months ended 31 March 2001
	HK$'000	*HK$'000*
Group:		
Elsewhere	–	(9)
Overprovision in the prior period	578	–
Tax credit/(charge) for the year/period	578	(9)

The Group's net deferred tax assets not recognised in the financial statements amounted to approximately HK$8,046,000 (2001: HK$4,303,000) at the balance sheet date and mainly represented unutilised tax losses carried forward.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK$68,950,000 (period ended 31 March 2001: HK$129,875,000, as restated).

The prior year adjustment reversed dividend income from a subsidiary of HK$34,500,000, which was declared and approved by the subsidiary after the 31 December 1999 balance sheet date, but which was recognised by the Company as revenue in its financial statements for the year ended 31 December 1999. The prior year adjustment resulted in a decrease of the Company's net loss from HK$164,375,000 to HK$129,875,000 for the 15 months ended 31 March 2001. The change in accounting policies has arisen from the adoption of revisions to SSAP 9 & 18, as further detailed in notes 3, 4 and 23 to the financial statements.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$45,101,000 (period ended 31 March 2001: HK$198,439,000) and 108,659,267 (period ended 31 March 2001: weighted average of 108,702,434) ordinary shares in issue during the year.

Diluted loss per share amounts for the year ended 31 March 2002 and the 15 months ended 31 March 2001 have not been calculated because no diluting events existed during the year/period.

14. FIXED ASSETS

Group

	Investment properties *HK$'000*	**Other assets** *HK$'000*	**Total** *HK$'000*
Cost or valuation:			
At beginning of year			
– At cost	–	5,314	5,314
– At valuation	219,986	–	219,986
Disposals	–	(1,169)	(1,169)
Deficit on revaluation	(24,254)	–	(24,254)
Exchange realignments	76	8	84
At 31 March 2002	195,808	4,153	199,961
Accumulated depreciation:			
At beginning of year	–	3,853	3,853
Provided during the year	–	423	423
Disposals	–	(1,168)	(1,168)
Exchange realignments	–	5	5
At 31 March 2002	–	3,113	3,113
Net book value:			
At 31 March 2002	195,808	1,040	196,848
At 31 March 2001	219,986	1,461	221,447

The investment properties are all held under long term leases as follows:

	2002 *HK$'000*	**2001** *HK$'000*
Situated in:		
Hong Kong	176,400	200,100
Elsewhere	19,408	19,886
	195,808	219,986

The investment properties, which are situated in Hong Kong and the United Kingdom, were revalued on 31 March 2002 on an open market value, existing use basis by DTZ Debenham Tie Leung Limited, registered professional surveyors, and A Fieldhouse, BSc MRICS, chartered surveyors, respectively. A revaluation deficit of HK$24,254,000 (2001: HK$16,346,000) resulting from the above valuation has been charged to the investment property revaluation reserve.

At 31 March 2002, certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of HK$54,700,000 (2001: HK$66,900,000) were pledged to secure general banking facilities granted to the Group (note 20).

Subsequent to the balance sheet date, in April 2002, the Group obtained a new bank loan of HK$60,000,000 which is secured by certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of HK$157,000,000 at the balance sheet date (note 27).

Further particulars of the Group's investment properties are set out on pages 87 to 88 of this circular.

The investment properties are leased to third parties under operating leases, further details of which are included in note 25 to the financial statements.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002	**2001**
	HK$'000	*HK$'000*
Unlisted shares, at cost	298,005	298,005
Due from a subsidiary	10,724	12,185
Due to a subsidiary	(6,971)	(6,971)
	301,758	303,219
Less: Provision for impairment	(230,485)	(163,000)
	71,273	140,219

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Cosmopolitan Properties and Securities Limited	Hong Kong	HK$1,000	100	–	Securities trading and property investment
Supernational Limited	Hong Kong	HK$6,815,230	–	100	Securities trading
Village Properties Limited	Hong Kong	HK$20	–	100	Property investment
Furada Limited *	Channel Islands	GBP12	–	100	Property investment

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

16. SHORT TERM INVESTMENTS

	Group 2002 HK$'000	Group 2001 HK$'000
Listed equity investments, at market value:		
Hong Kong	100	41,218
Elsewhere	1,926	81,600
	2,026	122,818

17. ACCOUNTS RECEIVABLE

An aged analysis of the Group's and the Company's accounts receivable is as follows:

	Group 2002 HK$'000	Group 2001 HK$'000	Company 2002 HK$'000	Company 2001 HK$'000
0 – 60 days	254	8,301	–	–
61 – 90 days	6	50	–	–
Over 90 days	33	86	10	10
	293	8,437	10	10

Sales proceeds from securities trading are receivable in accordance with the settlement terms of the respective stock market practices, and rental income from investment properties is normally receivable in advance each month during the term of tenancy. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

18. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	2,227	2,137	178	340
Time deposits	20,517	6,809	–	–
	22,744	8,946	178	340

19. BANK AND OTHER BORROWINGS

		Group	
		2002	***2001***
	Notes	*HK$'000*	*HK$'000*
Bank overdrafts – secured	20	29,460	49,792
Current portion of bank loans – secured	20	349	49,608
Loan from a director	21, 27	30,000	–
		59,809	99,400

20. INTEREST-BEARING BANK BORROWINGS AND OVERDRAFTS

	Group 2002 *HK$'000*	Group 2001 *HK$'000*
Bank overdrafts – secured	29,460	49,792
Bank loans – secured	4,258	53,895
	33,718	103,687
Bank overdrafts repayable within one year or on demand	29,460	49,792
Bank loans repayable:		
Within one year	349	49,608
In the second year	371	307
In the third to fifth years, inclusive	1,259	1,106
Beyond five years	2,279	2,874
	4,258	53,895
	33,718	103,687
Portion classified as current liabilities – note 19	(29,809)	(99,400)
Long term portion	3,909	4,287

Certain of the Group's bank loans and overdrafts are secured by:

(i) legal charges over the Group's investment properties situated in Hong Kong which had an aggregate carrying value at the balance sheet date of HK$54,700,000 (2001: HK$66,900,000); and

(ii) a corporate guarantee executed by the Company (note 26).

21. OTHER NON-CURRENT LIABILITIES

	Note	Group ***2002*** *HK$'000*	Group ***2001*** *HK$'000*
Loans from a director	27	85,572	115,572
Government lease regrant premium		37	39
Tenant deposits due after one year		1,154	1,417
		86,763	117,028

22. SHARE CAPITAL

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
200,000,000 ordinary shares of HK$0.10 each	20,000	20,000
Issued and fully paid:		
108,659,267 ordinary shares of HK$0.10 each	10,866	10,866

Changes to the Company's share capital subsequent to the balance sheet date are disclosed in note 27(b) to the financial statements.

23. RESERVES

	Capital redemption reserve	Capital reserve	Exchange fluctuation reserve	Investment property revaluation reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group							
At 1 January 2000	193	28,309	(1,734)	182,264	26,801	112,425	348,258
Deficit on revaluation	–	–	–	(16,346)	–	–	(16,346)
Exchange realignments	–	–	(2,857)	204	–	–	(2,653)
Net loss for the period	–	–	–	–	–	(198,439)	(198,439)
Repurchase of shares	16	–	–	–	–	(430)	(414)
Released on disposal	–	–	–	(905)	–	–	(905)
At 31 March 2001 and beginning of year	209	28,309	(4,591)	165,217	26,801	(86,444)	129,501
Deficit on revaluation	–	–	–	(24,254)	–	–	(24,254)
Exchange realignments	–	–	98	–	–	–	98
Net loss for the year	–	–	–	–	–	(45,101)	(45,101)
At 31 March 2002	209	28,309	(4,493)	140,963	26,801	(131,545)	60,244

The amount of goodwill remaining eliminated against the consolidated retained profits arising from the acquisition of a subsidiary prior to 1 April 2001 amounted to HK$533,187 as at both 1 April 2001 and 31 March 2002, as explained in note 4 to the financial statements.

	Capital redemption reserve	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Company				
At 1 January 2000				
As previously reported	193	290,621	3,169	293,983
Prior year adjustment:				
SSAP 18 (Revised) – effect of dividend from a subsidiary no longer recognised as income for the year *(notes 4 and 12)*	–	–	(34,500)	(34,500)
As restated	193	290,621	(31,331)	259,483
Net loss for the period (as restated)	–	–	(129,875)	(129,875)
Repurchase of shares	16	–	(430)	(414)
At 31 March 2001 and beginning of year	209	290,621	(161,636)	129,194
Net loss for the year	–	–	(68,950)	(68,950)
	209	290,621	(230,586)	60,244

The contributed surplus of the Group represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor during the Group reorganisation in 1991, net of subsequent distributions therefor.

The Company's contributed surplus represents the difference between the fair value of the subsidiaries acquired pursuant to the Group reorganisation in 1991 and the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Law of the Cayman Islands, the contributed surplus is distributable under certain specific circumstances.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities

	Year ended 31 March 2002 *HK$'000*	15 months ended 31 March 2001 *HK$'000*
Loss from operating activities	(41,379)	(189,466)
Gain on disposal of investment properties	–	(1,103)
Depreciation	423	605
Loss on disposal of fixed assets	1	–
Interest income	(659)	(2,631)
Decrease in accounts receivable	8,144	52,735
Decrease in other receivables and deposits	685	41,759
Decrease/(increase) in short term investments	120,792	(43,194)
Decrease in accruals and other liabilities	(141)	(57,812)
Increase/(decrease) in other non-current liabilities	(265)	382
Net cash inflow/(outflow) from operating activities	87,601	(198,725)

(b) Analysis of changes in financing during the year/period

	Bank loans *HK$'000*	Loans from a director *HK$'000*
At 1 January 2000	4,864	–
Net cash inflow/(outflow) from financing	(297)	115,572
At 31 March 2001 and beginning of year	4,567	115,572
Net cash outflow from financing	(309)	–
At 31 March 2002	4,258	115,572

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Within one year	6,814	5,190
In the second to fifth years, inclusive	5,105	7,495
	11,919	12,685

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements with the terms ranging from two to four years.

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

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
		(Restated)
Within one year	739	1,335
In the second to fifth years, inclusive	1,602	2,341
	2,341	3,676

At the balance sheet date, the Company had no material commitments.

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

26. CONTINGENT LIABILITIES

	Group		Company	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks for facilities granted to subsidiaries	–	–	61,963	91,963

As at 31 March 2002, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$33.7 million (2001: HK$54.4 million).

27. POST BALANCE SHEET EVENTS

(a) on 4 April 2002, the Group obtained a new bank loan of HK$60,000,000 which is repayable by 96 monthly instalments. The current portion thereof which is repayable in the year ending 31 March 2003 amounts to HK$2,200,000. This borrowing is secured by certain investment properties of the Group with a carrying value of approximately HK$157,000,000 as at the balance sheet date (note 14). The bank loan was used to repay part of the director's loans of HK$30,000,000 (note 19) and all of the Group's bank overdrafts of HK$29,460,000 (note 20) outstanding as at 31 March 2002;

(b) on 19 April 2002, the Company entered into a placing agreement with a placing agent to issue and allot 9,000,000 new ordinary shares of the Company at HK$0.58 each payable in cash to an independent party. The placing shares represented approximately 8.28% of the Company's then existing issued share capital and approximately 7.65% of the issued share capital of the Company as enlarged by the placing. The placement was completed on 7 May 2002. The net cash proceeds of approximately HK$5,090,000, after deducting the related expenses, were used to provide additional general working capital of the Group; and

(c) Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, advanced HK$115,572,000 (the "Loans") to the Group during the period ended 31 March 2001. The Loans are unsecured and interest-free. Subsequent to the balance sheet date, as set out in (a) above, HK$30,000,000 of the Loans was repaid. Eric Edward Hotung, C.B.E. has made an undertaking that he will not demand repayment of the remaining balance of HK$85,572,000 before 25 May 2003 and, accordingly, this remaining balance has been classified as a non-current liability at the balance sheet date.

Set out below is a summary condensed pro forma consolidated balance sheet of the Group as at 31 March 2002, prepared as if the above refinancing arrangements had been completed as at 31 March 2002:

	Audited consolidated net assets at 31 March 2002	Pro forma adjustments			Pro forma adjusted consolidated net assets at 31 March 2002
		New bank loan	Repayment of bank and other borrowings	Private placement	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	196,848	–	–	–	196,848
Current assets	27,089	60,000	(59,460)	5,090	32,719
Current liabilities	(62,155)	(2,400)	59,460	–	(5,095)
Net current assets/ (liabilities)	(35,066)	57,600	–	5,090	27,624
Non-current liabilities	(90,672)	(57,600)	–	–	(148,272)
	71,110	–	–	5,090	76,200
Issued capital	10,866	–	–	900	11,766
Reserves	60,244	–	–	4,190	64,434
	71,110	–	–	5,090	76,200

28. RELATED PARTY TRANSACTIONS

During the year/period, in addition to the transactions disclosed in notes 19, 21 and 27 to the financial statements, the Group had the following transactions with Eric Edward Hotung, C.B.E. and companies of which Eric Edward Hotung, C.B.E. is also a director:

	Notes	Year ended 31 March 2002 *HK$'000*	15 months ended 31 March 2001 *HK$'000*
Rental income from a director	(a)	347	404
Management fee expense to a related company	(b)	120	150

Notes:

(a) During the year/period, the Group let properties to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, for the purpose of storing his own personal effects. The rental was calculated by reference to the prevailing open market rentals.

(b) The management fee expense was paid to the related company for providing management services for the Group's investment properties. The management fee was charged at a monthly fixed amount as mutually agreed between the parties, with reference to the time and costs incurred by the related company.

29. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2002.

DETAILS OF INVESTMENT PROPERTIES

31 March 2002

Investment properties	Category Lot no.	Term of lease	Use
Various units in Cheong Fai Mansion, 22 Tong Mi Road, Mong Kok, Kowloon *	Kowloon Inland Lot no. 9476	Long term	Commercial and residential
Various units in Cheong Ling Mansion, 3-11 Nullah Road, 258-260 Sai Yeung Choi Street South, Mong Kok, Kowloon *	Remaining portion of Kowloon Inland Lot no. 9286	Long term	Residential
Various units in Cosmopolitan Centre, 760 Nathan Road, Mong Kok, Kowloon *	Remaining portion of Kowloon Inland Lot no. 9279	Long term	Residential
Various units in Cheong Lok Mansion, 1-11 Lo Lung Hang Road, 2-12 Malacca Street and 1G-1K Baker Street, Hung Hom, Kowloon *	Hung Hom Inland Lot no. 484	Long term	Commercial and residential
Various units in Cheong Chun Mansion, 181 Wanchai Road and 2-10A Wood Road, Wanchai, Hong Kong *	Inland Lot no. 455	Long term	Commercial and residential
Various units in Cheong Hong Mansion, 25-33 Johnston Road, 2 Fenwick Street, 1-3 Thomson Road, Wanchai, Hong Kong *	Remaining portions of Inland Lot nos. 2831 and 2832	Long term	Commercial and residential

Investment properties	Category Lot no.	Term of lease	Use
Various car parking spaces in Sun View Court, 31 Village Road and 19 Yuk Sau Street, Happy Valley, Hong Kong *	Inland Lot no. 2915	Long term	Car park
13 The Belvedere, Chelsea Harbour, London SW10, England	–	Long term	Residential

* *In the opinion of the directors, the number of investment properties owned by the Group in these locations is such that to provide full details of the postal address and lot number of each property would result in particulars of excessive length. Accordingly, because no single property is material, a more general description of the properties has been provided.*

IV. SUMMARY OF THE UNAUDITED CONSOLIDATED RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

Unaudited consolidated profit and loss account
for the six months ended 30 September 2002

	HK$'000
TURNOVER	
Gross rental income from investment properties	3,771
Rental costs	(390)
Gross profit	3,381
Other revenue	387
Gain on disposal of investment properties	16,577
Administrative and operating expenses	(6,177)
Unrealised holding losses on listed investments	(205)
PROFIT FROM OPERATING ACTIVITIES	13,963
Finance costs	(1,140)
PROFIT BEFORE TAX	12,823
Tax	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12,823
Dividend	–
EARNINGS PER SHARE – Basic	10.98 cents

There are no exceptional item, extraordinary item and minority interest noted for the six months ended 30 September 2002.

V. UNAUDITED CONSOLIDATED RESULTS OF THE GROUP FOR THE TWO MONTHS ENDED 30 NOVEMBER 2002

The unaudited consolidated results of the Group for the two months ended 30 November 2002 are set out below:

	For the two months ended 30 November 2002
	HK$'000
Turnover	984
Loss from operating activities	(3,351)
Finance costs	(344)
Loss before tax	(3,695)
Tax	–
Net loss from ordinary activities attributable to Shareholders	(3,695)
Dividend	–
Loss per Share – Basic	(3.14 cents)
Dividend per Share	–

VI. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS UPON COMPLETION

The following is a statement of the unaudited pro forma adjusted consolidated net tangible assets of the Group immediately following the Completion. It is based on the audited consolidated financial statements of the Group as at 31 March 2002, adjusted to reflect the effect of the Subscription and adjustments made since 31 March 2002.

	HK$'000
Audited consolidated net assets and net tangible assets of the Group as at 31 March 2002	71,110
Add: Net proceeds from placing of 9,000,000 shares at HK$0.58 per Share on 7 May 2002	5,053
Add: Unaudited net profit from ordinary activities attributable to shareholders for the six months ended 30 September 2002 based on the Group's unaudited interim report	12,823
Add: Unaudited exchange difference arising from consolidation of an overseas subsidiary as at 30 September 2002 based on the Group's unaudited interim report	2,970
Less: Unaudited realisation of revaluation reserve upon disposal of investment properties based on the Group's unaudited interim report	(15,715)
Unaudited consolidated net assets and net tangible assets of the Group as at 30 September 2002 based on the Group's unaudited interim report	76,241
Less: Unaudited net loss from ordinary activities attributable to shareholders for the two months ended 30 November 2002 based on the Group's unaudited results	(3,695)
Add: Unaudited exchange difference arising from consolidation of an overseas subsidiary as at 30 November 2002 based on the Group's unaudited results	1,521
Less: Unaudited deficit on revaluation of investment properties *(Note)*	(38,372)
Unaudited pro forma adjusted consolidated net tangible assets of the Group before the Subscription	**35,695**
Estimated net proceeds of the Subscription (176,500,000 shares at HK$0.31 per Share)	48,705
Unaudited pro forma adjusted consolidated net tangible assets of the Group upon Completion	**84,400**
Unaudited pro forma adjusted net tangible asset value per Share before the Subscription based on 117,659,267 Shares in issue	HK$0.30
Unaudited pro forma adjusted net tangible asset value per Share upon Completion based on 294,159,267 Shares in issue immediately following the Completion	HK$0.29

Note The deficit on revaluation of the Group's investment properties of approximately HK$38,372,000 was calculated based on the valuation performed by an independent valuer, FPDSavills (Hong Kong) Limited, as at 30 November 2002 as set out in Appendix III to the circular. The deficit on revaluation of the Group's investment properties was arrived at after deducting therefrom the carrying value as at 30 November 2002 (taking into account the revaluation deficit already incorporated into the audited consolidated net tangible assets of the Group as at 31 March 2002 and that no revaluation of the Group's investment properties has been made since 1 April 2002 save for the valuation made as at 30 November 2002 as mentioned herein).

VII. INDEBTEDNESS

As at the close of business on 30 November 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate outstanding borrowings amounting to approximately HK$118.07 million, comprising secured bank loans of approximately HK$59.89 million and unsecured loans from a director and a shareholder of the Company, Eric Edward Hotung, C.B.E., of approximately HK$58.18 million. The secured bank loans comprised long term loans of approximately HK$56.43 million and short term loans of approximately HK$3.46 million. As at the same date, the Group had no contingent liabilities.

As at 30 November 2002, secured bank loans are secured by certain investment properties of the Group in Hong Kong with carrying value of approximately HK$122.25 million and by corporate guarantees from the Company for HK$60,000,000 and for an amount not less than HK$11,963,000, respectively.

Save as aforesaid and apart from intra-group liabilities, no companies within the Group had outstanding at the close of business on 30 November 2002, any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

A letter dated 9 January 2003 has been sent to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, from a former legal advisor claiming approximately HK$1.1 million of alleged unpaid professional fees for services rendered to Cosmopolitan Properties and Securities Limited ("CPSL"), a wholly-owned subsidiary of the Company, for the period from 1 September 1996 to 30 August 1997 (the "Alleged Claim"). No legal action has been taken against the Company or any of its subsidiaries to date in respect of the Alleged Claim, and based on the legal opinion, the Directors are of the opinion that it is premature to give any reliable indication as to the likely outcome of the Alleged Claim. Accordingly, because the Directors considered that the Group had no present obligation as at the Latest Practicable Date, no provision has been made in the Group's financial statements in respect of the damages claimed.

As at the Latest Practicable Date, the Directors confirmed that there were no material changes in the status of indebtedness of the Group since 30 November 2002.

VIII. MATERIAL CHANGES

Furada Limited, an indirect wholly-owned subsidiary of the Company, has commenced members' voluntary winding-up proceedings in December 2002. Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any circumstances or event that may give rise to a material change in the financial or trading condition or prospects of the Group since 31 March 2002 (the date to which the latest published audited financial statements of the Group were made up).

Set out below are the text of the letters received by the Directors from the auditors, Ernst & Young, and from the financial advisers, Deloitte & Touche Corporate Finance Ltd and Baron Capital Limited, in connection with the unaudited consolidated results of the Group for the two months ended 30 November 2002.

(A) LETTER FROM ERNST & YOUNG

ERNST & YOUNG
安永會計師事務所

Certified Public Accountants
15/F Hutchison House
10 Harcourt Road
Central, Hong Kong

Phone: 852 2846 9888
852 2526 5371
Fax: 852 2868 4432
852 2845 9208

14 February 2003

The Directors
Cosmopolitan International Holdings Limited
5th Floor
The Chinese Club Building
21-22 Connaught Road Central
Central
HONG KONG

Dear Sirs

We have reviewed the unaudited consolidated results of Cosmopolitan International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the two months ended 30 November 2002 (the "Unaudited Results"), for which the directors of the Company are solely responsible. The Unaudited Results are set out in the section headed "Unaudited consolidated results of the Group for the two months ended 30 November 2002" in Appendix I to the circular issued by the Company dated 14 February 2003 in connection with the proposed subscription of new shares by the subscriber and application for the granting of the whitewash waiver and the special deal consent (the "Circular").

A review of the Unaudited Results consists principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making inquiries of management. The review was substantially less in scope than an audit performed in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants and, accordingly, we do not express an audit opinion on the Unaudited Results.

Based on our review, so far as the accounting policies and calculations are concerned, the Unaudited Results have been properly compiled and prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group and nothing has come to our attention that any material modifications should be made to the Unaudited Results as presented in the Circular.

Yours faithfully
Ernst & Young
Certified Public Accountants

(B) LETTER FROM THE FINANCIAL ADVISERS

Deloitte & Touche Corporate Finance Ltd

Baron Capital Limited

14 February 2003

The Directors
Cosmopolitan International Holdings Limited
5th Floor
The Chinese Club Building
21-22 Connaught Road Central
Central
Hong Kong

Dear Sirs,

Review of the unaudited consolidated results of Cosmopolitan International Holdings Limited and its subsidiaries for the two months ended 30 November 2002

We refer to the unaudited consolidated results of Cosmopolitan International Holdings Limited (the "Company") and its subsidiaries (herein collectively referred to as the "Group") for the two months ended 30 November 2002 (the "Unaudited Results"), for which the directors of the Company are solely responsible. The Unaudited Results are set out in the section headed "Unaudited consolidated results of the Group for the two months ended 30 November 2002" in Appendix I to the circular issued by the Company dated 14 February 2003 in connection with the proposed subscription of new shares by the subscriber and application for the granting of the whitewash waiver and the special deal consent of which this letter forms part.

We have discussed with you the accounting policies upon which the Unaudited Results have been prepared. We have also considered the letter dated 14 February 2003 addressed to you by Ernst & Young, the auditors of the Company relating to the accounting policies and calculations adopted in the preparation of the Unaudited Results.

On the basis of the accounting policies and calculations adopted in preparing the Unaudited Results and the review performed by Ernst & Young, we are satisfied that the Unaudited Results have been compiled after due and careful consideration.

Yours faithfully,	Yours faithfully,
For and on behalf of	For and on behalf of
Deloitte & Touche Corporate Finance Ltd	**Baron Capital Limited**
Lawrence Chia	**Joseph Wan** **Thomas Chiu**
Managing Director	*Chairman* *Managing Director*

The following is the text of a letter prepared for the purpose of inclusion in this circular received from FPDSavills in connection with their opinion of the values of the properties of the Group as at 30 November 2002.

14 February 2003

The Directors
Cosmopolitan International Holdings Limited
5th Floor
The Chinese Club Building
Nos. 21 - 22 Connaught Road Central
Hong Kong

FPDsavills
第一太平戴維斯 INTERNATIONAL PROPERTY CONSULTANTS

FPDSavills (Hong Kong) Limited
23/F Two Exchange Square
Central
Hong Kong
EA Licence: C 002450
Telephone: (852) 2842 4400
Direct Fax: 2530 0756

www.fpdsavills.com
www.fpdsavillsproperty.com

FPDsavills International

Dear Sirs,

We refer to your instructions for us to value all the property interests of Cosmopolitan International Holdings Limited (the "Company") and its subsidiaries (herewith together referred to as the "Group") located in Hong Kong as specified in the attached summary of values. We confirm that we have carried out inspection, made relevant enquires and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the property interests as at 30 November 2002 (the "Valuation Date").

Our valuation is our opinion of the open market value of each of the properties concerned which we would define as intended to mean "the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the Valuation Date, assuming:

(a) a willing seller;

(b) that, prior to the Valuation Date, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the Valuation Date;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuation has been made on the assumption that the property interests can be sold in the open market without any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the value of the property interests.

All property interests are valued by the comparison method assuming each property is capable of being sold on a strata-titled basis with the benefit of vacant possession. Comparison based on prices realised on actual sales or offerings of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. Property interests that are subject to existing tenancies are valued by the Investment Method whereby current rents passing are capitalised for the residue of their tenancy terms, with their reversionary interests to vacant possession deferred for the same periods.

We have carried out sample land searches in the relevant Land Registry in Hong Kong but have not verified the original title documents or ascertained the existence of any lease amendments which may not appear on the copies handed to us. All documents and leases have been used as reference only and all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations.

We have inspected the exterior and wherever possible, the interior of the properties concerned included in the attached valuation certificate. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties concerned are free from rot, infestation or other defects. No tests were carried out on any of the services.

We have relied to a very considerable extent on information given by your Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, tenancy details, floor areas and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Company has also advised us that no material facts have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not verified and make no representation that the property(ies), including any plant and equipment therein, is millennium compliant, or that the value of the property(ies) is(are) not adversely affected in any way by any part of it(them) not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties valued nor for any expenses which may be incurred in effecting a sale. The Company, as vendor of the property interests, would not be subject to any property-related taxes such as stamp duty, property tax or Government Rates as a consequence to the disposal of such property interests at our valuation.

Our valuation has been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors.

Our summary of values and valuation certificate are attached hereto.

Yours faithfully,
For and on behalf of
FPDSavills (Hong Kong) Limited

Samuel C K Young
BSc (Hons), AHKIS, RPS(GP), MCIArb
Associate Director
Valuation and Consultancy

Note: Mr. Samuel Young is an Associate Member of The Hong Kong Institute of Surveyors and has over 15 years' valuation experience on properties in Hong Kong.

SUMMARY OF VALUES

No.	Property	Open Market Value in existing state as at 30th November, 2002	Open Market Value attributable to the Group
1.	Shops A, B, C and D on Ground Floor and Flat J on 14th Floor, Cheong Fai Mansion, No. 22 Tong Mi Road, Kowloon	HK$7,500,000	HK$7,500,000 *(100% interest attributable to the Group)*
2.	Shops A to R on Ground and Mezzanine Floors, Shops A to V on 1st Floor, Flats A, N and X on 3rd Floor, Flat C on 5th Floor, Flats I and Z on 7th Floor and Flats A and N on 8th Floor, Cheong Lok Mansion, Nos. 1G, 1H, 1J & 1K Baker Street, Nos. 2F, 2G & 2H Cooke Street, Nos. 1 - 11 Lo Lung Hang Street, Nos. 2 - 12 Malacca Street, Kowloon	HK$28,500,000	HK$28,500,000 *(100% interest attributable to the Group)*
3.	Flat C on 3rd Floor and Flat B on 13th Floor, Cheong Ling Mansion, Nos. 3, 5, 7, 9, & 11 Nullah Road and Nos. 258 - 260 Sai Yeung Choi Street South, Kowloon	HK$1,800,000	HK$1,800,000 *(100% interest attributable to the Group)*
4.	Flats 6 and 10 on 7th Floor, Flat 10 on 8th Floor and Flats 6 and 10 on 10th Floor, Cosmopolitan Centre (formerly known as E.S.K. Ho-tung Building), No. 760 Nathan Road, Kowloon	HK$3,900,000	HK$3,900,000 *(100% interest attributable to the Group)*
5.	Shops C, K and L on Ground Floor, Flat D on 4th Floor and Flats B and C on 7th Floor Cheong Chun Mansion, Nos. 181A - 181G Wan Chai Road, and Nos. 6, 8, 10 & 10A Wood Road, Hong Kong	HK$8,200,000	HK$8,200,000 *(100% interest attributable to the Group)*

No.	Property	Open Market Value in existing state as at 30th November, 2002	Open Market Value attributable to the Group
6.	Basement Floor, Open Yard on Ground Floor, Flat Roofs and Main Roofs, Shops A, B, C, D, E, F and G on Ground and Mezzanine Floors, Flat G on 2nd Floor, Flat F on 3rd Floor, Flat G on 4th Floor, Flats C, D and G on 5th Floor, Flats A, B and C on 6th Floor, Flat C on 7th Floor, Flats C, D and G on 8th Floor, Flat A on 9th Floor, Flat C on 10th Floor, Flats C and D on 12th Floor, Flats A and C on 14th Floor, Flats A, C and D on 15th Floor and Flats A, B and C on 16th Floor, Cheong Hong Mansion, Nos. 25-33 Johnston Road, Nos. 1-3 Thomson Road and No. 2 Fenwick Street, Hong Kong	HK$80,900,000	HK$80,900,000 *(100% interest attributable to the Group)*
7.	Car Parking Space Nos. 15, 17 and 20 on Ground Floor, Sun View Court, No. 31 Village Road, Hong Kong	HK$750,000	HK$750,000 *(100% interest attributable to the Group*
Total:		HK$131,550,000	HK$131,550,000

VALUATION CERTIFICATE

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
1.	Shops A, B, C and D on Ground Floor and Flat J on 14th Floor, Cheong Fai Mansion, No. 22 Tong Mi Road, Kowloon 5/273rd parts or shares of and in Kowloon Inland Lot No. 9476	The property comprises 4 shop units on ground floor and one domestic unit on 14th floor of a 15-storey composite building completed in 1968. The approximate saleable areas of the property are as follows: **Floor** / **Approximate Saleable Areas** *sq.ft.* *sq.m.* Shops on G/F 3,487 323.95 Flat J on 14/F 198 18.39 Kowloon Inland Lot No. 9476 is held under Conditions of Exchange No. 9163 for a term of 75 years from 9th April, 1897, renewable for further 75 years.	As at the Valuation Date, Shops A, B, C and D were leased for various terms with the latest tenancy expiring on 27th December, 2003 at a total monthly rent of HK$52,800, exclusive of rates and management fees. The domestic unit was vacant.	HK$7,500,000 *100% interest attributable to the Group: HK$7,500,000*

Notes:

1. The registered owner of the property is Cosmopolitan Properties and Securities Limited (formerly known as Cosmopolitan Properties Limited), a wholly owned subsidiary of Cosmopolitan International Holdings Limited, vide Memorial No. 1396857 (re-registered vide Memorial No. 2646639) dated 1st June, 1977.

2. Cosmopolitan Properties and Securities Limited is a wholly owned subsidiary of the Company.

3. According to our sample land search record, the property was subject to the following encumbrances as at the Valuation Date:

   i) Power of Attorney in favour of Consumers' Credit Collections Service Limited "The Attorney" by Cosmopolitan Properties and Securities Limited vide Memorial No. 1399617 dated 20th August, 1973.

   ii) Statutory Declaration by Leung Pak Luk as to loss of Title Deed vide Memorial No. 1647814 dated 18th January, 1979.

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
2.	Shops A to R on Ground and Mezzanine Floors, Shops A to V on 1st Floor, Flats A, N and X on 3rd Floor, Flat C on 5th Floor, Flats I and Z on 7th Floor and Flats A and N on 8th Floor, Cheong Lok Mansion, Nos. 1G, 1H, 1J & 1K Baker Street, Nos. 2F, 2G & 2H Cooke Street, Nos. 1 - 11 Lo Lung Hang Street, Nos. 2 - 12 Malacca Street, Kowloon 66/236th parts or shares of and in Hung Hom Inland Lot No. 484	The property comprises eighteen shop units on ground floor, eighteen shop units on mezzanine floor, twenty-two commercial units on 1st floor and eight domestic units on 3rd, 5th, 7th and 8th floors of a 10-storey (including mezzanine floor) composite building completed in 1966. The approximate saleable areas of the property are as follows: **Floor** / **Approximate Saleable Areas** *sq.ft.* *sq.m.* Shops on G/F 8,580 797.11 Shops on M/F 6,549 608.42 Commercial units on 1/F (excluding areas of corridor, toilets and flat roof) 7,462 693.24 Flats on 3/F, 5/F, 7/F and 8/F 2,837 263.57 Hung Hom Inland Lot No. 484 is held under Conditions of Exchange No. 8802 for a term of 75 years from 5th November, 1900, renewable for a further term of 75 years.	As at the Valuation Date, three domestic units were leased for various terms with the latest tenancy expiring on 31st May, 2003 at a total monthly rent of HK$13,227.10, exclusive of rates and management fees. All the remaining units were vacant.	HK$28,500,000 *100% interest attributable to the Group: HK$28,500,000*

Notes:

1. The registered owner of shops A to R on ground floor, shops A to V on 1st floor, flats A, N and X on 3rd floor, flat C on 5th floor, flats I and Z on 7th floor and flats A and N on 8th floor of the property is Cosmopolitan Properties and Securities Limited vide Memorial No. 755487 dated 20th July, 1970.

2. The registered owner of shops A to R on mezzanine floor of the property is Cosmopolitan Properties Limited vide Memorial No. 755487 dated 20th July, 1970.

3. According to the Certificate of Incorporation on Change of Name under Section 305(1) of Companies Ordinance (Cap. 32) dated 11th September, 2002, Cosmopolitan Properties Limited has changed its name on 8th February, 1973 to Cosmopolitan Properties and Securities Limited.

4. Cosmopolitan Properties and Securities Limited is a wholly owned subsidiary of the Company.

5. According to our sample land search record, shops A to R on ground floor, shops A to V on 1st floor, flats A, N and X on 3rd floor, flat C on 5th floor, flats I and Z on 7th floor and flats A and N on 8th floor of the property were subject to the following encumbrances as at the Valuation Date:

   i) Power of Attorney in favour of Consumers' Credit Collections Services Limited "The Attorney" by Cosmopolitan Properties and Securities Limited vide Memorial No. 1399617 dated 20th August, 1973.

6. According to our sample land search record, the property was subject to the following encumbrance as of the Valuation Date:

   i) Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys vide Memorial No. 8655868 dated 4th April, 2002.

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
3.	Flat C on 3rd Floor and Flat B on 13th Floor, Cheong Ling Mansion, Nos. 3, 5, 7, 9 & 11 Nullah Road and Nos. 258 & 260 Sai Yeung Choi Street South, Kowloon 2/107th parts or shares of and in the Remaining Portion of Kowloon Inland Lot No. 9286	The property comprises two domestic units on 3rd and 13th floors of a 15-storey (including mezzanine floor) composite building completed in 1965. The total saleable area of the property is approximately 1,416 sq.ft. (131.55 sq.m.) Kowloon Inland Lot No. 9286 is held under Conditions of Regrant No. 8934 for a term of 150 years from 26th June, 1899.	As at the Valuation Date, the property was vacant.	HK$1,800,000 *100% interest attributable to the Group: HK$1,800,000*

Notes:

1. The registered owner of the property is Cosmopolitan Properties and Securities Limited (formerly known as Cosmopolitan Properties Limited) vide Memorial No. 1396858 (Re-registered vide Memorial No. 2029959) dated 1st June, 1977.

2. Cosmopolitan Properties and Securities Limited is a wholly owned subsidiary of the Company.

3. According to our sample land search record, the property was subject to the following encumbrance as of the Valuation Date:

   i) Power of Attorney in favour of Consumers' Credit Collections Services Limited "The Attorney" by Cosmopolitan Properties and Securities Limited vide Memorial No. 1399617 dated 20th August, 1973.

   ii) Statutory Declaration by Leung Pak Luk as to loss of Title Deed vide Memorial No. 1647814 dated 18th January, 1979.

   iii) Declaration by Eric Edward Hotung, C.B.E. vide Memorial No. 7037290 dated 27th March, 1997.

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
4.	Flats 6 and 10 on 7th Floor, Flat 10 on 8th Floor and Flats 6 and 10 on 10th Floor, Cosmopolitan Centre (formerly known as E.S.K. Ho-tung Building), No. 760 Nathan Road, Kowloon 5/520th parts or shares of and in the Remaining Portion of Kowloon Inland Lot No. 9279	The property comprises five domestic units on 7th, 8th and 10th floors of a 15-storey (including mezzanine floor) composite building completed in 1973. The total saleable area of the property is approximately 2,253 sq.ft. (209.31 sq.m.). Kowloon Inland Lot No. 9279 is held under Conditions of Regrant No. 8933 for a term of 150 years from 26th June, 1899.	As at the Valuation Date, flat 6 on 7th floor and flat 10 on 10th floor were leased for various terms with the latest tenancy expired on 20th November, 2003 at a total monthly rent of HK$13,850, inclusive of rates and management fees. All the remaining units were vacant.	HK$3,900,000 *100% interest attributable to the Group: HK$3,900,000*

Notes:

1. The registered owner of the property is Cosmopolitan Properties and Securities Limited vide Memorial No. 1118986 dated 30th March, 1974.

2. Cosmopolitan Properties and Securities Limited is a wholly owned subsidiary of the Company.

3. According to our sample land search record, the property was subject to the following encumbrances as of the Valuation Date:

    i) Power of Attorney in favour of Consumers' Credit Collections Services Limited "The Attorney" by Cosmopolitan Properties and Securities Limited vide Memorial No. 1399617 dated 20th August, 1973.

    ii) First Legal Charge in favour of Chekiang First Bank Limited for all Monies Debts and Liabilities vide Memorial No. 6699759 dated 31st July, 1996.

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
5.	Shops C, K and L on Ground Floor, Flat D on 4th Floor, Flats B and C on 7th Floor, Cheong Chun Mansion, Nos. 181A - 181G Wan Chai Road and Nos. 6, 8, 10 & 10A Wood Road, Hong Kong 6/70th parts or shares of and in Inland Lot No. 445	The property comprises three shops on ground floor and three domestic units on 4th and 7th floors of a 10-storey composite building completed in 1964. The approximate saleable areas of the property are as follows: **Floor** / **Approximate Saleable Areas** *sq.ft.* *sq.m.* Shops on G/F 1,038 96.43 Domestic units 2,080 193.24 Inland Lot No. 445 is held by Government Lease for a term of 999 years from 26th December, 1860.	As at the Valuation Date, the shop units were leased for various terms with the latest tenancy expiring on 7th February, 2005 at a total monthly rent of HK$64,024.5, exclusive of rates and management fees. The remaining units were vacant.	HK$8,200,000 *100% interest attributable to the Group: HK$8,200,000*

Notes:

1. The registered owner of shops C, K and L on ground floor, flats B and C on 7th floor is Cosmopolitan Properties Limited vide Memorial No. 755487 dated 20th July, 1970 (Confirmed vide Confirmatory Assignment M/N 5087086).

2. The registered owner of flat D on 4th floor is Cosmopolitan Property and Securities Limited vide Memorial No. 6207433 dated 30th December, 1994

3. In accordance with the Certificate of Incorporation of Change of Name under Section 305(1) of Companies Ordinance (Cap. 32) dated 11th September, 2002, Cosmopolitan Property Limited has changed its name on 8th February, 1973 to Cosmopolitan Property and Securities Limited.

4. Cosmopolitan Property and Securities Limited is a wholly owned subsidiary of the Company.

5. According to our sample land search record, shops C, K and L on ground floor, flats B and C on 7th floor of the property was subject to the following encumbrance as of the Valuation Date:

   i) Power of Attorney in favour of Consumers' Credit Collections Services Limited "The Attorney" by Cosmopolitan Properties and Securities Limited vide Memorial No. 1399617 dated 20th August, 1973.

6. According to our sample land search record, the property was subject to the following encumbrance as of the Valuation Date:

   i) Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys vide Memorial No. 8655869 dated 4th April, 2002.

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
6.	Basement Floor, Open yard on Ground Floor, Flat Roofs and Main Roofs, Shops A, B, C, D, E, F and G on Ground and Mezzanine Floors, Flat G on 2nd Floor, Flat F on 3rd Floor, Flat G on 4th Floor, Flats C, D and G on 5th Floor, Flats A, B and C on 6th Floor, Flat C on 7th Floor, Flats C, D, and G on 8th Floor, Flat A on 9th Floor, Flat C on 10th Floor, Flats C and D on 12th Floor, Flats A and C on 14th Floor, Flats A, C and D on 15th Floor and Flats A, B and C on 16th Floor, Cheong Hong Mansion, Nos. 25 - 33 Johnson Road, Nos. 1 - 3 Thomson Road, No. 2 Fenwick Street, Hong Kong 40/119th parts or shares of and in the Remaining Portion of Inland Lot No. 2831 and The Remaining Portion of Inland Lot No. 2832	The property comprises the entire basement, seven shops on ground floor, seven units on mezzanine floor and twenty-five domestic units on various floors of a 19-storey (including the basement and the mezzanine floor) composite building completed in 1965. The approximate saleable areas of the property are as follows:- **Floor** / **Approximate Saleable Areas** (*sq.ft.* / *sq.m.*) B/F 4,556 / 423.27 Shops on G/F 6,267 / 582.22 Shops on M/F 4,447 / 413.14 Domestic units 18,230 / 1,693.62 Inland Lot No. 2831 and Inland Lot No. 2832 are held under Government Leases for a term of 99 years renewable for a further term of 99 years from 25th May, 1929 and 15th April, 1929 respectively.	As at the Valuation Date, nine domestic units were leased for various terms with the latest tenancy expired in 20th December, 2004 at a total monthly rent of HK$99,200, exclusive of rates and management fees. Flats C on 8th floor and 12th floor were owner-occupied. Shops A (portion), B, C, D, E, F and G on ground floor and shops A, B, C, D, E, F and G on mezzanine floor were leased for various terms with the latest tenancy expiring in 16th December, 2004 at a total monthly rent of HK$300,375, exclusive of rates and management fees. The remaining flats and shops were vacant.	HK$80,900,000 *100% interest attributable to the Group: HK$80,900,000*

Notes:

1. The registered owner of shops B and D on ground floor, shops A, B and D on mezzanine floor, flat F on 3rd floor, flat G on 4th floor, flats C, D and G on 5th floor, flats A, B and C on 6th floor, flat C on 7th floor, flats C, D, and G on 8th floor, flat A on 9th floor, flat C on 10th floor, flats C and D on 12th floor, flats A and C on 14th floor, flats A, C and D on 15th floor and flats A, B and C on 16th floor of the property is Cosmopolitan Properties Limited vide Memorial No. 755487 dated 20th July, 1970 (Confirmed vide Confirmatory Assignment M/N 5087086).

2. The registered owner of basement, shops A, C, E, F and G on ground floor, shops C, E, F and G on mezzanine floor and flat G on 2nd floor of the property is Cosmopolitan Properties and Securities Limited vide various Memorials.

3. According to the Certificate of Incorporation on Change of Name under Section 305(1) of Companies Ordinance (Cap. 32) dated 11th September, 2002, Cosmopolitan Properties Limited has changed its name on 8th February, 1973 to Cosmopolitan Properties and Securities Limited.

4. Cosmopolitan Properties and Securities Limited is a wholly owned subsidiary of the Company.

5. According to our sample land search record, the property was subject to the following encumbrances as of the Valuation Date:

   i) Power of Attorney in favour of Consumers' Credit Collections Service Limited "The Attorney" by Cosmopolitan Properties and Securities Limited vide Memorial No. 1399617 dated 20th August, 1973. (Re: part of the property)

   ii) Mortgage to secure general banking facilities for the consideration of all monies in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 8655867 dated 4th April, 2002.

No.	The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 30th November 2002
7.	Car Parking Space Nos. 15, 17 and 20 on Ground Floor, Sun View Court, No. 31 Village Road, Hong Kong 3/504th parts or shares of and in Inland Lot No. 2915	The property comprises three car parking spaces on ground floor of a 24-storey residential building erected over a 2-storey carparking podium. The development was completed in 1985. Inland Lot No. 2915 is held under a Government Lease for a term of 75 years from 9th September, 1929 renewable for further term of 75 years.	As at the Valuation Date, the property was vacant.	HK$750,000 *100% interest attributable to the Group: HK$750,000*

Notes:

1. The registered owner of the property is Village Properties Limited vide Memorial No. 5624352 dated 3rd November, 1992.

2. Village Properties Limited is a wholly owned subsidiary of the Company.

3. According to our sample land search record, the property was subject to the following encumbrance as of the Valuation Date:

   i) First Legal Charge in favour of Chekiang First Bank Limited for all Monies Debts and Liabilities vide Memorial No. 6699759 dated 31st July, 1996.

1. RESPONSIBILITY STATEMENT

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

The directors of Gold Capital jointly and severally accept full responsibility for the accuracy of the information relating to Gold Capital contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular relating to Gold Capital have been arrived at after due and careful consideration and there are no other facts relating to Gold Capital not contained in this circular, the omission of which would make any statement relating to Gold Capital contained herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors

As at the Latest Practicable Date, save as disclosed below, none of the Directors had any interests in the shares and debentures of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) and convertible securities, warrants, options and derivatives in respect of Shares which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which any such Director was taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required to be entered into the register maintained by the Company under section 29 of the SDI Ordinance or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange or which were required, pursuant to the Takeovers Code to be disclosed in this circular:

Name of Director	Number of Shares held and nature of interest
	Personal interest
Eric Edward Hotung, C.B.E.	29,952,608

As at the Latest Practicable Date, none of the Directors had any interests in the shares of Gold Capital, convertible securities, warrants, options and derivatives in respect of shares of Gold Capital.

As at the Latest Practicable Date, save for the arrangement in relation to the application of HK$42.5 million of the estimated net proceeds to be derived from the Subscription to repay part of the Loan, and the utilisation of HK$11.5 million of the Company's cash balance at Completion to repay the balance of the Loan in the amount of HK$11.5 million (the net effect of the application of the Subscription proceeds and the Loan Repayment can be referred to in the letter from the Board of this circular),

(i) there was no agreement, arrangement or understanding (including any compensation arrangement) which exists between Gold Capital or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or was dependent upon the Subscription, the Whitewash Waiver and the Loan Repayment; and

(ii) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon or otherwise connected with the Subscription, the Whitewash Waiver and the Loan Repayment.

There is no service contract with the Company or any of its subsidiaries or associated companies in force for the Directors which have more than 12 months to run.

No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office in any member of the Group or otherwise in connection with the Subscription, the Whitewash Waiver and the Loan Repayment.

(b) The Company and subsidiaries

None of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company nor any adviser to the Company as specified in class (2) of the definition of "associate" of the Takeovers Code (excluding exempt principal traders) had any interests in the Shares, convertible securities, warrants, options and derivatives in respect of the Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, there was no shareholding in the Company owned or controlled, nor any dealings during the Relevant Period, by any person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or its "associate(s)" as specified in classes (1), (2), (3) and (4) of the definition of "associate" of the Takeovers Code.

As at the Latest Practicable Date, none of the Company or any of its subsidiaries had any interest in the shares of Gold Capital, convertible securities, warrants, options and derivatives in respect of shares of Gold Capital.

(c) Directors of Gold Capital

As at the Latest Practicable Date, none of the directors of Gold Capital had any interest in the Shares, convertible securities, warrants, options and derivatives in respect of the Shares.

(d) Gold Capital

As at the Latest Practicable Date, none of Gold Capital and its Concert Parties had any interest in the Shares, convertible securities, warrants, options and derivatives in respect of the Shares.

As at the Latest Practicable Date, none of Gold Capital and its Concert Parties had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any Concert Parties of the Company or with any other person.

As at the Latest Practicable Date, save for the arrangement in relation to the application of HK$42.5 million of the estimated net proceeds to be derived from the Subscription to repay part of the Loan, and the utilisation of HK$11.5 million of the Company's cash balance at Completion to repay the balance of the Loan in the amount of HK$11.5 million (the net effect of the application of the Subscription proceeds and the Loan Repayment can be referred to in the letter from the Board of this circular), there was no agreement or arrangement between Gold Capital and any Directors which was conditional on or dependent upon or otherwise connected with the Subscription, the Whitewash Waiver and the Loan Repayment.

(e) Others

As at the Latest Practicable Date, none of Deloitte & Touche Corporate Finance Ltd, Baron Capital Limited, Ernst & Young, CSC Asia and FPDSavills had any interests in the Shares, convertible securities, warrants, options and derivatives in respect of the Shares or any shareholding in any member of the Group or had the right to subscribe for or to nominate persons to subscribe for shares, convertible securities, warrants, options and derivatives in respect of shares in any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of substantial Shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance and so far as was known to the Directors, the following Shareholders (other than the Directors) were interested in 10% or more in the issued share capital of the Company:

Name	Number of shares held	Approximate percentage of the Company's share capital
Hotung Investment (China) Limited	16,171,000	13.74
Genesee Company Limited	15,161,000	12.89

Save as disclosed above, no person or corporation, other than Eric Edward Hotung, C.B.E. whose interests are set out in the section "Disclosure of interests" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

4. DEALINGS IN SECURITIES

(a) Directors of the Company

None of the Directors or their respective Concert Parties had dealt in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares during the Relevant Period.

None of the Company, the Directors and their respective Associates had dealt in any shares of Gold Capital, convertible securities, warrants, options and derivatives in respect of shares of Gold Capital during the Relevant Period.

(b) Gold Capital

None of Gold Capital, the directors of Gold Capital or their respective Concert Parties had dealt in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares during the Relevant Period.

(c) Others

None of Deloitte & Touche Corporate Finance Ltd, Baron Capital Limited, Ernst & Young, CSC Asia and FPDSavills or any of their respective holding companies or respective subsidiaries had dealt in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares during the Relevant Period.

5. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) 11 December 2002, being the last trading day prior to the suspension of trading in the Shares pending the issue of the Announcement; and (iii) the Latest Practicable Date.

	Closing price of the Shares on the last trading day of each of the six months immediately preceding the date of the Announcement *HK$*
June 2002	0.61
July 2002	0.62
August 2002	0.58
September 2002	0.57
October 2002	0.45
November 2002	0.45
11 December 2002	0.45
Latest Practicable Date	0.62

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period between 11 June 2002, being the date six months prior to the day trading in the Shares was suspended pending the issue of the Announcement, and ending on the Latest Practicable Date were HK$0.8 on 11 June 2002 and HK$0.45 from 29 October 2002 to 11 December 2002 respectively.

6. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Deloitte & Touche Corporate Finance Ltd	Registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Baron Capital Limited	Registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
CSC Asia	Registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Ernst & Young	Certified Public Accountants, Hong Kong
FPDSavills	Professional property valuer

7. CONSENTS

Deloitte & Touche Corporate Finance Ltd, Baron Capital Limited, CSC Asia, Ernst & Young and FPDSavills have given and have not withdrawn their respective written consents to the issue of this circular, with the inclusion herein of their letters and references to their names, in the form and context in which they respectively appear.

8. LITIGATION

A letter dated 9 January 2003 has been sent to Eric Edward Hotung, C.B.E., a Director and a substantial shareholder of the Company, from a former legal adviser (the "Previous Lawyer") alleging that there was an unpaid bill amounting to approximately HK$1.1 million in relation to professional services rendered more than 5 years ago and which were extended to Cosmopolitan Properties and Securities Limited, a wholly-owned subsidiary of the Company. According to the records of Eric Edward Hotung, C.B.E., all professional fees claimed by the Previous Lawyer have been settled and the alleged claim is unsubstantiated. Save as disclosed above, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

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

(1) the placing agreement dated 19 April 2002 entered into between the Company as the issuer and Shenyin Wanguo Capital (H.K.) Limited as the placing agent in respect of placing 9,000,000 new Shares at the price of HK$0.58 per Share; and

(2) the Subscription Agreement.

10. GENERAL

(a) The registered office of the Company is situated at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The head office and principal place of business of the Company is at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong.

(c) The registered office of the Subscriber is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.

(d) The secretary of the Company is Mr. Ho Siu Lam, *MBA, FCCA, FHKSA*.

(e) As at the Latest Practicable Date, no Shareholder has committed to vote for or against the ordinary resolution approving the Subscription, the Whitewash Waiver and the Loan Repayment.

(f) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong from the date of this circular up to and including 3 March 2003:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of Gold Capital;

(c) the agreements mentioned under the paragraph headed "Material contracts" in this appendix;

(d) the annual reports of the Company for the two years ended 31 March 2002;

(e) the interim report of the Company for the six months ended 30 September 2002;

(f) the comfort letter from Ernst & Young regarding the unaudited consolidated results of the Company and its subsidiaries for the two months ended 30 November 2002, the text of which is set out in Appendix II to this circular;

(g) the comfort letter from Deloitte & Touche Corporate Finance Limited and Baron Capital Limited regarding the unaudited consolidated results of the Company and its subsidiaries for the two months ended 30 November 2002, the text of which is set out in Appendix II to this circular;

(h) the letter and valuation certificates prepared by FPDSavills in relation to the Group's properties which are set out in Appendix III to this circular;

(i) the written consents referred to in the paragraph headed "Consents" in this appendix; and

(j) the letter from CSC Asia as set out on pages 27 to 54 of this circular.

This appendix serves as the explanatory statement required under Rule 10.06(1)(b) of the Listing Rules to provide you with the information necessary for your consideration of the Repurchase Mandate to be granted to the Directors.

SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 117,659,267 Shares. Pursuant to the Subscription, an aggregate of 176,500,000 Subscription Shares will be issued.

The exercise in full of the Repurchase Mandate, on the basis of 294,159,267 Shares in issue immediately after the issue of the Subscription Shares would result in up to 29,415,927 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and the Shareholders to have general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and articles of association and the applicable laws of the Cayman Islands. The laws of Cayman Islands provide that the purchase of Shares may only be paid from the profits of the Company and/or out of the proceeds of a new issue of Shares made for the purpose of the repurchase or out of capital, if the Company can immediately following such payment, pay its debt as they fall due in the ordinary course of business.

There might be material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the annual report for the year ended 31 March 2002) in the event that the proposed repurchase of Shares was to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

GENERAL

The Directors have undertaken to the Stock Exchange that, so far as the same may be applied, they will exercise the Repurchase Mandate in accordance with the Listing Rules and applicable laws of the Cayman Islands.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their Associates have any present intention to sell any Shares to the Company.

No connected persons (as defined in the Listing Rules) have notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

Upon Completion, it is expected that Gold Capital will hold 176,500,000 Shares, representing approximately 60% of the then enlarged issued share capital of the Company. The future Directors, Gold Capital and the Company have jointly and severally undertaken to the Stock Exchange to ensure that the public float will not be less than 25% immediately after Completion. It is the intention of Gold Capital to place down its shareholding interest in the Company to one or more independent third parties but no firm arrangements have been made as at the Latest Practicable Date. The Directors do not intend to repurchase Shares to such an extent that the public float will fall below 25%. The Directors are not aware of any consequences which will arise under the Takeovers Code as a result of any purchases made under the Repurchase Mandate.

SHARE PRICES

The highest and lowest closing prices for Shares recorded on the Stock Exchange during each of the previous twelve months ended 31 December, 2002, respectively, were as follows:

	Highest	**Lowest**
	HK$	*HK$*
2002		
January	0.70	0.60
February	0.59	0.52
March	0.84	0.59
April	0.80	0.73
May	0.81	0.68
June	0.81	0.61
July	0.63	0.60
August	0.65	0.58
September	0.63	0.57
October	0.57	0.45
November	0.45	0.45
December	0.70	0.45

SHARE PURCHASES MADE BY THE COMPANY

No purchase of Shares has been made by the Company in the Relevant Period (whether on the Stock Exchange or otherwise).

Cosmopolitan International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of Cosmopolitan International Holdings Limited (the "Company") will be held at 9:30 a.m. on Monday, 3 March 2003 at Pheasant Room, 1st Floor, Mandarin Oriental Hong Kong, 5 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the authorised share capital of the Company as at the date of this meeting of HK$20,000,000 divided into 200,000,000 ordinary shares of HK$0.10 each (the "Shares") be and is hereby increased to HK$50,000,000 divided into 500,000,000 Shares by the creation of an additional 300,000,000 Shares."

2. "**THAT** subject to the passing of ordinary resolution numbered 1 set out in the notice of the extraordinary general meeting of the Company dated 14 February 2003 (the "Notice"), of which this resolution forms part,

   (a) the allotment and issue by the Company of 176,500,000 new Shares (the "Subscription Shares") to Gold Capital Investments Limited ("Gold Capital") or its nominee pursuant to the terms of the subscription agreement dated 11 December 2002 and entered into between the Company and Gold Capital (the "Subscription Agreement") be and is hereby approved;

   (b) the waiver granted or to be granted pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong to Gold Capital and any party acting in concert with it from their obligation to make an unconditional mandatory general offer for all the issued Shares currently in issue and not already owned or agreed to be acquired by either Gold Capital or any person acting in concert with it under Rule 26 of the Hong Kong Code on Takeovers and Mergers which would otherwise arise as a result of the completion ("Completion") of the Subscription Agreement (the "Whitewash Waiver") be and is hereby approved; and

   (c) the application of HK$42.5 million of the estimated net proceeds from the subscription of the Subscription Shares by Gold Capital to repay part of the loans in an aggregate amount of HK$54 million owing from Cosmopolitan Properties and Securities Limited, a wholly-owned subsidiary of the Company, to Eric Edward Hotung C.B.E., a director and a substantial shareholder of the Company (the "Loan"), and the utilisation of HK$11.5 million from the cash balance of the Company at Completion to repay the balance of the Loan in the amount of HK$11.5 million (the "Loan Repayment") be and are hereby approved."

3. "**THAT**:

(a) subject to:

(i) the passing of ordinary resolutions numbered 1 and 2 set out in the Notice, of which this resolution forms part; and

(ii) paragraphs (b) and (c) of this resolution,

the directors of the Company (the "Directors") be and are hereby granted an unconditional general mandate to allot, issue and deal with additional Shares and to allot, issue or grant securities convertible into such Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements and options in respect thereof;

(b) such mandate shall not extend beyond the Relevant Period (as defined in paragraph (d) below) save that the Directors may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, otherwise than pursuant to:

(i) a rights issue;

(ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into Shares;

(iii) the exercise of the subscription rights under options granted under any option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following the allotment and issue of the Subscription Shares; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"rights issue" means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

4. "**THAT**:

(a) subject to:

(i) the passing of ordinary resolutions numbered 1 and 2 set out in the Notice, of which this resolution forms part; and

(ii) paragraph (b) of this resolution,

the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, Shares and that the exercise by the Directors of all powers of the Company during the Relevant Period (as defined in paragraph (c) below) to repurchase Shares, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the allotment and issue of the Subscription Shares; and

(c) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest."

5. "**THAT** subject to the passing of ordinary resolutions numbered 3 and 4 set out in the Notice, of which this resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the mandate granted under ordinary resolution numbered 3 set out in the Notice, of which this resolution forms part, be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the Shares which may be

repurchased by the Company pursuant to and in accordance with the mandate granted under ordinary resolution numbered 4 set out in the Notice, of which this resolution forms part, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the allotment and issue of the Subscription Shares."

By order of the Board
Cosmopolitan International Holdings Limited
Ho Shu Wah
Alternate Director to Eric Edward Hotung,
C.B.E. (Chairman and Managing Director)

Hong Kong, 14 February 2003

Notes:

1. A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, or a poll, vote instead of him. A proxy need not be member of the Company.

2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or notarially certified copy of such power of attorney or authority, must be deposited at the Company's principal place of business in Hong Kong at 5th Floor, The Chinese Club Building, 21-22 Connaught Road Central, Central, Hong Kong, at least 48 hours before the time appointed for holding of the extraordinary general meeting or adjourned meeting or poll. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or adjourned meeting should you so wish.

3. Ordinary resolution numbered 2 in this notice will be put to a poll.

4. Eric Edward Hotung, C.B.E. and his Concert Parties (as defined in the Hong Kong Code on Takeovers and Mergers) will abstain from voting in respect of ordinary resolution numbered 2.