

**CAPITAL REORGANISATION, CHANGE OF NAME AND OPEN OFFER**

Subsequent to the balance sheet date, the Directors announced on 19 November 2003 that the Company proposed, among other matters, to:

- (i) implement a capital reorganisation which will involve (a) a consolidation of every 200 existing shares of HK\$0.01 each into 1 consolidated share of HK\$2.00 each (the "Consolidated Share"); (b) a reduction in the nominal value of the then issued share capital from HK\$2.00 per Consolidated Share to HK\$0.01 per adjusted share (the "Adjusted Share") (the "Capital Reduction"); (c) a subdivision of each authorised but unissued Consolidated Share into 200 Adjusted Shares of HK\$0.01 each; (d) cancellation of the entire amount standing to the credit of the share premium account of the Company as at 30 September 2003 (the "Share Premium Cancellation"); and (e) the application of the total credit arising from the Capital Reduction and Share Premium Cancellation to the contributed surplus account of the Company, which will be used to set off against the accumulated losses of the Company as at 30 September 2003;
- (ii) change its name to "China Elegance (Holdings) Limited";
- (iii) raise approximately HK\$7.9 million (before expenses) by way of an open offer of not less than 794,967,120 new Adjusted Shares (the "Offer Shares") on the basis of provisional allotment, on an assured basis, of nine Offer Shares for every Adjusted Share held on the record date, which is expected to be 13 January 2004, at a subscription price of HK\$0.01 per Offer Share (the "Open Offer").

A special general meeting will be held on 5 January 2004 to consider and if thought fit, to approve, inter alia, the above matters.

Copies of the circular (the "Circular") dated 10 December 2003 containing detailed information of the above matters have been dispatched to the shareholders of the Company on 10 December 2003.

Included in the Circular is a letter of advice from AMS Corporate Finance Limited ("AMS"), the independent financial adviser to the independent board committee advising on the terms of the Open Offer. Having reviewed the interim report of the Company for the six months ended 30 September 2003 (the "Interim Report"), AMS has indicated that its opinions as stated in its letter of advice in respect of the Open Offer remain unchanged.

The independent board committee, having reviewed the Interim Report and considered the above statement made by AMS, has also indicated that its recommendation in respect of the Open Offer included in the Circular remain unchanged.

#### **LIQUIDITY AND FINANCIAL RESOURCES**

During the period under review, there is no significant change in the capital structure of the Group.

The Group generally finances its operations with internally generated cashflows. However, the iron ores and steel trading business sometimes discounted its bills receivable with banks to finance its operation.

The Group's gearing ratio as at 30 September 2003 was 0.03% (31 March 2003: 0.2%) based on the total bank borrowings of HK\$0.03 million (31 March 2003: HK\$0.2 million) and the shareholders' fund of HK\$88 million (31 March 2003: HK\$98.1 million). Interest on bank borrowings is charged at commercial lending rates to the Group.

As at 30 September 2003, the Group had cash and bank balances of approximately HK\$8.2 million (31 March 2003: HK\$12.1 million) of which bank deposit of HK\$1 million (31 March 2003: HK\$1 million) was pledged to a bank for general banking facilities granted to the Group.

The operating cash flows of the Group is mainly denominated in HK\$, RMB and US\$. The directors consider these currencies relatively stable and therefore the Group's exposure to fluctuations in exchange rates is minimal.