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

If you have sold or transferred all of your securities in the Company, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, or a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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JADE DYNASTY GROUP LIMITED

玉皇朝集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

(formerly known as Jade Dynasty Food Culture Group Limited)

MAJOR AND CONNECTED TRANSACTION ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN JADE DYNASTY HOLDINGS LIMITED

Joint Financial Advisors to the Company



Oriental Patron Asia Limited



KINGSTON CORPORATE FINANCE LIMITED

Independent financial advisor to the Independent Board Committee



CSC Asia Limited

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Acquisition is set out on page 19 of this circular and a letter from CSC Asia Limited, the independent financial advisor to the Independent Board Committee and the Independent Shareholders, containing its advice in relation to the Acquisition is set out on pages 20 to 35 of this circular.

A notice convening the SGM to be held on Thursday, 30th September, 2004 at 3:00 p.m. at 11th Floor, Safety Godown Industrial Building, 56 Ka Yip Street, Chai Wan, Hong Kong is set out on pages 116 to 118 of this circular. If you are not able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

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DEFINITIONS

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

“Acquisition”	the proposed acquisition by the Company of 49.0% equity interest in JDH pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 17th August, 2004 entered into between the Company as purchaser and the Vendors as vendors for sale and purchase of shares of JDH
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Jade Dynasty Group Limited (formerly known as Jade Dynasty Food Culture Group Limited), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Completion Date”	the third business day immediately following satisfaction of all the conditions precedent of the Agreement, or such other date as the parties to the Agreement shall agree in writing
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Conversion Price”	HK\$0.5 per Share, subject to adjustment in accordance with the terms of the Convertible Notes
“Conversion Shares”	Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Notes
“Convertible Notes”	convertible notes in aggregate principal amount of HK\$65,333,333 with a coupon rate of 2% to be issued by the Company to the Vendors at Completion pursuant to the Agreement
“CSC”	CSC Asia Limited, a deemed licensed corporation to carry out type 6 regulated activities under the SFO and the independent financial advisor to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group as enlarged following Completion

DEFINITIONS

“Giant Profit”	Giant Profit Investments Inc., a company interested in 3,833,333 Shares, representing approximately 0.54% of the total issued share capital of the Company as at the Latest Practicable Date, and is controlled by the discretionary trust of Mr. Cheung Ting Kau, Vincent, an executive Director
“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 the independent non-executive Directors of the Company, Mr. Ho Yiu Ming and Mr. Kwong Chi Keung, to advise the Independent Shareholders on the Agreement and all the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than Super Empire, Pariain and their respective associates
“JDH”	Jade Dynasty Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“JDH Group”	JDH and its subsidiaries
“Latest Practicable Date”	13th September, 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining and collation of relevant information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	31st October, 2004, or such other date as the parties to the Agreement shall agree in writing
“Maturity Date”	the third anniversary of the date of issue of the Convertible Notes
“Mr. Wong”	Mr. Wong Chun Loong, the ultimate controlling shareholder of the Company who was beneficially interested in approximately 46.34% of the total issued share capital of the Company as at the Latest Practicable Date through his 95.0% equity interest in Super Empire

DEFINITIONS

“Oriental Patron”	Oriental Patron Asia Limited, a deemed licensed corporation under the SFO, which is not a connected person of the Company
“Pariain”	Pariain Enterprises Corp., a company interested in 36,599,333 Shares, representing approximately 5.13% of the total issued share capital of the Company as at the Latest Practicable Date, and is controlled by the discretionary trust of Dr. Chan Kong Sang, Jackie, an executive Director
“Previous Acquisition”	the acquisition by the Company from Mr. Wong and the Strategic Investors of an aggregate of 51% of the total issued share capital of JDH announced in March 2004
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened to approve the Agreement, and all the transactions contemplated thereunder
“Shares”	ordinary shares of HK\$0.002 each in the share capital of the Company
“Shareholder(s)”	holders of the issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Investors”	a group of 14 corporate and individual former shareholders of JDH who sold their shares in JDH to the Company under the Previous Acquisition
“Super Empire”	Super Empire Investments Limited, a company interested in 330,935,100 Shares, representing approximately 46.34% of the total issued share capital of the Company as at the Latest Practicable Date, and is beneficially owned as to 95% by Mr. Wong and 5% by Mr. Tong Kai Lap who is an executive Director
“Vendors”	Mr. Wong and his associates; Rapid Alert International Limited; Wong Miu Ling, Patricia; Wong Chun Keung; Wan Siu Lun; Noble River Limited; and certain employees of JDH Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



JADE DYNASTY GROUP LIMITED

玉皇朝集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

(formerly known as Jade Dynasty Food Culture Group Limited)

Executive Directors:

Dr. Chan Kong Sang, Jackie (*Chairman*)
Mr. Chan Chee Kheong (*Deputy Chairman*)
Mr. Tong Kai Lap (*Deputy Chairman*)
Mr. Wong Chun Keung
Mr. Wan Siu Lun
Mr. Ko Chi Keung
Mr. So Che Hung, Solon
Mr. Cheung Ting Kau, Vincent

Independent non-executive Directors:

Mr. Ho Yiu Ming
Mr. Kwong Chi Keung

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business:

11th Floor
Safety Godown Industrial Building
56 Ka Yip Street
Chai Wan
Hong Kong

15th September, 2004

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN
JADE DYNASTY HOLDINGS LIMITED**

INTRODUCTION

On 24th August, 2004, the Company announced that it has entered into a conditional sale and purchase agreement with the Vendors for the acquisition of a total of 490,000 shares of JDH, representing 49.0% of the total issued share capital of JDH at a consideration of HK\$98 million, which shall be satisfied by the payment of the cash sum of about HK\$32.7 million and the issue of Convertible Notes in aggregate principal amount of about HK\$65.3 million to the Vendors.

JDH is presently owned as to 51% by the Group and 49% by the Vendors. Upon Completion, JDH will become a wholly-owned subsidiary of the Company.

* *for identification purposes only*

LETTER FROM THE BOARD

The Acquisition constitutes a major and connected transaction for the Company pursuant to the Listing Rules and thus, is subject to the approval of the Independent Shareholders at the SGM. The Vendors, Super Empire, Pariaian and their respective associates will abstain from voting in respect of the Acquisition at the SGM. The Group announced in March 2004 its Previous Acquisition from Mr. Wong and the Strategic Investors a total of 51% of the issued share capital of JDH which was completed in April 2004. The Acquisition when considered together with the Previous Acquisition constitutes also major transaction of the Company under the Listing Rules. The aggregate of the remuneration payable to and benefits in kind receivable by the Directors have not been and will not be varied in consequence of the Previous Acquisition and the Acquisition respectively.

An Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Acquisition. CSC has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders.

The purpose of this circular is (i) to provide you with further information in respect of the Acquisition; (ii) to set out the opinion of the Independent Board Committee and CSC in relation to the Acquisition; and (iii) to give you notice of the SGM at which resolution will be proposed to seek your approval of the Acquisition.

THE AGREEMENT

Date

17th August, 2004

Parties

Purchaser: the Company
Vendor: the Vendors

Assets to be acquired

490,000 shares of JDH, representing 49.0% of the total issued share capital of JDH.

Consideration

The total consideration is HK\$98 million, which shall be satisfied by the issue of Convertible Notes in aggregate principal amount of about HK\$65.3 million and payment of the cash sum of about HK\$32.7 million on Completion. Assuming that the conversion rights attached to the Convertible Notes are fully exercised at the initial Conversion Price of HK\$0.5 per Share, a total of 130,666,666 Shares will be issued.

LETTER FROM THE BOARD

Conditions

Completion of the Agreement is conditional upon, inter alia:

1. the passing at the SGM of the Shareholders of the Company of an ordinary resolution to approve (i) the Agreement and all the transactions contemplated thereunder as required by the Listing Rules; and (ii) the issue of the Convertible Notes to the Vendors under the Agreement and the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Notes;
2. the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Notes; and
3. the obtaining by the Company, to the Company's satisfaction, of all necessary consents, authorizations or other approvals of any kind in connection with the entering into and performance by the Company of the terms of the Agreement which may be required under the Listing Rules or from the Shareholders, the Stock Exchange, any regulatory authority, any relevant governmental agencies or other third parties.

None of the conditions precedent can be waived by any of the parties to the Agreement.

If any of the conditions precedent have not been fulfilled on or before 5:00 p.m. on the Longstop Date, the Agreement shall lapse and no party shall have any claim against the other save for claim (if any) in respect of antecedent breach.

Completion

Upon compliance with or fulfillment of all the conditions precedent, completion of the Agreement shall take place on the Completion Date.

THE CONVERTIBLE NOTES

At Completion, the Company will issue the Convertible Notes in aggregate principal amount of HK\$65,333,333 to the Vendors in settlement of balance of the consideration not paid in cash. Principal terms of the Convertible Notes are summarized below.

Aggregate principal amount

HK\$65,333,333

LETTER FROM THE BOARD

Maturity Date

The Maturity Date is set on the third anniversary of the date of issue of the Convertible Notes. Upon maturity any outstanding principal amount of the Convertible Notes will be redeemed for cash at par.

Interest

The holders of the Convertible Notes will be entitled to receive interest commencing from the date of issue of the Convertible Notes up to (but excluding) the Maturity Date at the rate of 2% per annum on the principal amount outstanding. Interest shall be payable semi-annually at the end of each successive 6-month's interval falling after the issue date.

Voluntary prepayment

The Company may elect to prepay the outstanding principal under the Convertible Notes prior to the Maturity Date provided that the amount of principal prepaid under each Convertible Note shall not exceed (i) within the first year of issue, one-third of the original principal amount of such Convertible Note and (ii) within the second year of issue, two-thirds of the original principal amount of such Convertible Note.

Save where the entire outstanding principal is prepaid or the above prepayment limits apply, the amount of any partial prepayment of principal shall not be less than the minimum of HK\$500,000 or, if more, shall be in integral multiples of HK\$100,000.

The Company must give to the holders written prepayment notice of not less than 10 business days. Prepayment of the Convertible Notes can only be made on the same date when an interest payment falls due. Such provision is inserted for the purposes of (i) limiting the frequency of prepayment and (ii) fixing in advance the exact date of prepayment. These matters are fixed in the interest of certainty and serve both the Company and the holders of the Convertible Notes. Prepayment on interest payment date allows interest accrued on the amount prepaid to be settled on the same day.

Save for the occurrence of certain acceleration events as specified in the Convertible Notes (such as interest payment default, insolvency or breach of conditions), holders of the Convertible Notes have no right to require the repayment or prepayment of the principal due under the Convertible Notes prior to the Maturity Date.

Conversion Price

The Conversion Price of HK\$0.5 per Share was determined on an arm's length basis between the Company and the Vendors. It represents:

- (1) a premium of about 31.6% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on 16th August, 2004 (being the last day of trading in the Shares on the Stock Exchange prior to the publication of the announcement on 25th August, 2004);

LETTER FROM THE BOARD

- (2) a premium of about 30.2% to the average closing price of the Shares of HK\$0.384 per Share for the period of 10 trading days ended on 16th August, 2004 (inclusive);
- (3) a premium of about 38.9% to the closing price of HK\$0.36 per Share on the Latest Practicable Date; and
- (4) a premium of about 30.2% to the average closing price of HK\$0.384 per Share for the 10 trading days up to and including the Latest Practicable Date.

The Conversion Price is subject to adjustment in the event of, among others, consolidation, sub-division or re-classification, capitalization of profits or reserves, capital distribution, rights issue and other dilutive events.

Conversion Provisions

The outstanding principal amount of the Convertible Notes are convertible in whole or in part into Shares at the Conversion Price at any time after their issue until 4:00 pm on the date which is the 10th business day preceding the Maturity Date.

Any amount of accrued and unpaid interest under the Convertible Notes may not be converted into Shares which shall be settled by the Company by cash payment to the converting holders to be made on the interest payment date which next follows the date of conversion.

Save where the entire outstanding amount of principal under a Convertible Note is converted, the amount of principal to be converted at each conversion shall be not less than HK\$500,000 or if more, shall be in integral multiples of HK\$100,000. No fraction of a Share shall be issued on conversion.

A conversion notice, once issued, may not be withdrawn without the Company's written consent.

Conversion Shares

Based on the initial Conversion Price of HK\$0.5 per Share, if the conversion rights attached to the Convertible Notes are fully exercised, 130,666,666 Shares will be issued, representing about 18.30% of the total issued share capital of the Company as at the Latest Practicable Date and about 15.47% of the total issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares, when issued, will rank *pari passu* with the issued Shares as at the date of allotment of the Conversion Shares. An application will be made to the Stock Exchange for the grant of listing of and permission to deal in the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Notes.

There is no restriction on the transfer of the Conversion Shares issued upon the conversion of the Convertible Notes.

Voting

The holders of the Convertible Notes shall not be entitled to attend or vote at any general meeting of the Company by reason only of their being holders of the Convertible Notes.

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Transferability

Save where the entire outstanding amount of principal under a Convertible Note is transferred, the amount of any partial transfer of principal shall not be less than the minimum of HK\$500,000 or, if more, shall be in integral multiples of HK\$100,000.

Subject to compliance with the requirement on minimum transfer amount, the Convertible Notes are freely assignable or transferable by the holders thereof to any persons. Upon the Company becoming aware that any of the Convertible Notes are to be transferred to any connected persons of the Company, the Company will notify the Stock Exchange from time to time.

INFORMATION ON JDH

The JDH Group is principally engaged in the business of publishing and distributing comic publications as well as the sales of derivative products related to its comic titles mainly in Hong Kong and Taiwan. The JDH Group also licenses the distribution rights of its comic titles in oversea markets such as Taiwan, South Korea, Southeast Asian countries (Thailand, Indonesia and Malaysia), U.S.A. and Europe. Making use of the core strength in producing comic work, the JDH Group has already been implementing its plans to explore the comic book market and related animation market in the PRC.

The JDH Group is one of the leading publishers of comic books in Hong Kong. Comic books published by the JDH Group are basically categorized as local publications (publications created and produced by Hong Kong artists) and Japanese publications (publications licensed from Japanese publishers for publications in Chinese version). For each month, there are currently 6 local comic titles in Hong Kong and Taiwan, namely The Weapon (in Chinese “神兵玄奇”), The Dragon and Tiger Heros (in Chinese “新著龍虎門”), Legend of Emperor V (in Chinese “天子傳奇五－如來神掌”), The Saint (in Chinese “大聖王”), Tong’s Heros (in Chinese “大唐雙龍傳”) and The Weapon – Fore Story (in Chinese “神兵前傳”) and an average of 25 Japanese comic titles being published on a weekly or biweekly basis in Hong Kong and Taiwan. The JDH Group also operates a website, www.kingcomics.com, which is a Chinese website providing online reading of comic books for subscription by its members as well as online shopping for the JDH Group’s merchandises. The Directors believe that it is the first website launched in Hong Kong which offers online reading of comic books.

The Directors consider that JDH has competitive advantage over its competitors in the comic publication industry in terms of the exclusive services provided by its chief creative officer, Mr. Wong who is also the controlling shareholder of the Company, the popularity and talent of its team of comic artists, the experience and expertise of the management team, the breadth of the distribution network and the ability to maintain continuity and popularity of comics publications. Moreover, JDH Group currently has various registered logos and exclusive production rights and trademarks and a library of copyrights of comic titles which may be used for adaptation for animation and other derivative products. The Directors consider that JDH has a sound business model with considerable growth potential especially in the PRC’s cultural industry. It is the Company’s corporate mission to develop JDH Group into a top-class comics empire based in the PRC with unique Chinese style.

LETTER FROM THE BOARD

JDH is presently owned as to 51% by the Group and 49% by the Vendors. Upon Completion, JDH will become a wholly-owned subsidiary of the Company.

Existing shareholding structure of JDH and costs of investment of the connected parties of the Company in JDH

The table below sets out the existing shareholding structure of JDH and the costs of investment of the connected parties of the Company in JDH:

	No. of shares	%	Cost of investment (Note 2) HK\$	Cost per share of JDH HK\$
The Company	<u>510,000</u>	<u>51.00</u>	NA	NA
Mr. Wong and his associates				
Mr. Wong	423,772	42.38	13,564,110	32.01
Mr. Wong's associates	<u>4,712</u>	<u>0.47</u>	900,000	191.00
Sub-total	<u>428,484</u>	<u>42.85</u>		
JDH Group's management and employees				
Rapid Alert International Limited	10,404	1.04	1,400,000	134.56
Wong Miu Ling, Patricia	9,568	0.96	Nil	Nil
Wong Chun Keung	11,832	1.18	1,900,008	160.58
Wan Siu Lun	9,827	0.98	1,200,000	122.11
Noble River Limited	11,454	1.15	4,000,000	349.22
JDH Group's management and employees (Note 1)	<u>8,431</u>	<u>0.84</u>	NA	NA
Sub-total	<u>61,516</u>	<u>6.15</u>		
Total	<u><u>1,000,000</u></u>	<u><u>100.00</u></u>		

Note 1: As these shareholders of JDH are not connected persons of the Company, no disclosure has to be made in compliance with Rule 14A.56 of the Listing Rules which stipulates that disclosure of the original purchase cost of the asset to the connected person is required where the transaction involves the purchase of assets by the listed issuer from connected persons.

Note 2: The investments were made during the period from May 1993 to October 2000.

The Company's existing 51% interest in JDH was acquired by the Company in the Previous Acquisition from Mr. Wong as to 21.02% and the Strategic Investors as to 29.98% for an aggregate consideration of HK\$50,999,996.94. The aggregate consideration for the Previous Acquisition were satisfied by cash payment of HK\$21,019,500 to Mr. Wong, HK\$2,444,400 to Topower Assets Limited (being one of the Strategic Investors), and issue and allotment of 83,442,718 Shares in the Company at HK\$0.33 per Share to the Strategic Investors.

LETTER FROM THE BOARD

The audited consolidated net tangible assets of JDH as at 31st March, 2004 was approximately HK\$21.9 million. The table below sets out the audited profit before and after taxation of the JDH Group for the year ended 31st March, 2004 and the fifteen months ended 31st March, 2003 respectively:

	Year ended 31st March, 2004	15 months ended 31st March, 2003
	(HK\$)	(HK\$)
Profit before taxation	11,850,910	14,137,746
Profit after taxation	11,122,910	13,820,222

Note: The difference in period or year end was due to a change in financial year end from 31st December, to 31st March, by JDH in 2002.

SHAREHOLDING STRUCTURE OF THE COMPANY

Below sets out the shareholding structure of the Company at present and assuming Completion and full conversion of the Convertible Notes at the initial Conversion Price of HK\$0.5 per Share:

	Shareholding at present		Shareholding assuming full conversion of the Convertible Notes	
	No. of Shares	%	No. of Shares	%
Super Empire and its associates				
– Super Empire	330,935,100	46.34	330,935,100	39.17
– Mr. Wong	–	–	113,005,866	13.38
– Ngai Man Kuen, Annie (Note 1)	–	–	459,200	0.05
– Wong Miu Chun (Note 2)	–	–	797,333	0.09
– Wong Chun Keung (Note 3)	–	–	3,155,200	0.37
– Rapid Alert International Limited (Note 4)	–	–	2,774,400	0.33
– Wong Miu Ling, Patricia (Note 5)	–	–	2,551,466	0.30
Wan Siu Lun (Note 7)	–	–	2,620,534	0.31
Noble River Limited (Note 6)	–	–	3,054,400	0.36
Pariain (Note 6)	36,599,333	5.13	36,599,333	4.33
Giant Profit	3,833,333	0.54	3,833,333	0.45
Public – (including other Vendors not being connected persons)	342,738,418	47.99	344,986,685	40.84
Total	<u>714,106,184</u>	<u>100.00</u>	<u>844,772,850</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

- (1) Ms. Ngai Man Kuen Annie is Mr. Wong's wife and is his associate.
- (2) Ms. Wong Miu Chun is Mr. Wong's sister and is his associate.
- (3) Mr. Wong Chun Keung is Mr. Wong's younger brother and a director of both the Company and JDH.
- (4) Rapid Alert International Limited is an investment holding company beneficially owned by a family trust of which Mr. Tong Kai Lap is the settlor. Mr. Tong is a director of both the Company and JDH.
- (5) Ms. Wong Miu Ling, Patricia is Mr. Tong's wife and is his associate.
- (6) Noble River Limited and Pariain are investment holdings companies controlled by discretionary trusts of Dr. Chan Kong Sang. Dr. Chan is the director of both the Company and a subsidiary of JDH.
- (7) Mr. Wan Siu Lun is a director of both the Company and JDH.

The Acquisition will not result in a change of control of the Company.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the operation of comics publication and related business substantially through its 51% equity interest in JDH.

With reference to the business prospects especially in the PRC's cultural industry and historical performance of JDH, the Directors believe that the Acquisition will make further valuable contribution to the Group's future prospects and will reinforce the present corporate mission of the Company to develop JDH Group into a top-class comics empire based in the PRC with unique Chinese style. The Company at present has an effective 51% equity interests in JDH, and the Company will have a 100% full control of JDH and a total of 8 local comic titles in Hong Kong and Taiwan upon Completion. The Acquisition will also enable the Company to capitalize the entire future contributions from JDH. The Directors are of the view that the future growth prospects of JDH especially in the PRC's cultural industry could be significantly improved and therefore it is desirable to acquire the remaining 49% equity interest in JDH the sooner the more beneficial.

Consideration for the Acquisition is HK\$98 million which represents a price to earnings multiple of JDH of approximately 18.0 times of its net profit for the year ended 31st March, 2004. Compared with the Previous Acquisition of consideration of HK\$51 million as announced in March 2004, the price to earnings multiple of JDH was approximately 9.0 times of its net profit for the year ended 31st March, 2004. The Acquisition when considered together with the Previous Acquisition constitutes a major transaction of the Company under the Listing Rules and the total consideration of the Acquisition and the Previous Acquisition is HK\$149 million which represents a price to earnings multiple

LETTER FROM THE BOARD

of JDH of approximately 13.4 times of its net profit for the year ended 31st March, 2004. The Directors consider the Acquisition is justified by the following factors:

1. The rapid development of the animation and comics markets in the PRC cultural industry in the recent months has been witnessed by the huge demand for contents from major cities like Beijing, Shanghai and Shenzhen for adaptation for animated TV episodes and theatrical films which may create various business opportunities including but not limited to animation-derived comics books and other animation-derived products like toys, apparels, stationery and premium items. JDH owns a library of copyrights of various comic titles which may be adapted for animated TV episodes and theatrical films. Titles which are being identified by various local and PRC media enterprises for adaptation for animated TV episodes and theatrical films include The Weapon (in Chinese “神兵玄奇”), Super Dragon and Tiger Heros (in Chinese “龍虎五世”), Legend of Emperor (in Chinese “天子傳奇”) and The Saint (in Chinese “大聖王”). The Group will be benefited by the future earning potential of JDH;
2. Following the PRC’s accession to the WTO, the magazines and books distribution market will be fully liberalized in or about December 2004. The introduction of foreign capital and international experience in books and magazines distribution logistics and other management areas on both wholesale and retail establishments e.g. formation of more chain stores for books and magazines will bring about a more efficient comic book distribution mechanism in the PRC with huge market potentials. In this way, the Group will be benefited by the future earning potential of JDH;
3. The Previous Acquisition was favourably received by the capital markets as substantiated by the top-up placing of the Shares of the Company announced in June 2004 and the upward trend of the Company’s share price with increased liquidity;
4. The Previous Acquisition had contributed to the development of the Group’s comic business operations; and
5. Acquiring the entire operations of JDH will enable the Company to enter into the PRC cultural industry in full force and with full autonomy without incurring unnecessary compliance cost arising from the complication of potential connected transactions by virtue of the fact that 49% of JDH are mostly owned by connected persons and to capitalize the entire future contributions from JDH. In addition, consent from minority shareholders of JDH for JDH’s future strategic and operational activities such as appropriation of funding, formation of joint-venture and strategic partnership will no longer be required. The Group can also capitalize the entire future earnings of JDH without sharing with minority shareholders of JDH.

LETTER FROM THE BOARD

The Company will finance the cash portion of the consideration of about HK\$32.7 million by internal resources of the Group and the remaining HK\$65.3 million by issuing the Convertible Notes. As at the Latest Practicable Date, the Group has sufficient financial resources to satisfy the cash consideration.

The Directors including independent non-executive Directors consider that the terms of the Agreement and the Convertible Notes are fair and reasonable so far as the Company and the Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FACTORS TAKEN INTO ACCOUNT FOR THE CONSIDERATION OF ACQUISITION

The consideration was determined after arm's length negotiation between the parties to the Agreement. The Directors have also taken into account the following factors:

1. audited consolidated net tangible asset value of JDH as at 31st March, 2004 of approximately HK\$21.9 million;
2. the future earning potential of JDH as outlined in the paragraph headed "Reasons for the Acquisition" above;
3. the price to earnings multiple of JDH based on the consideration value of the Acquisition and the price to earnings multiple based on the aggregate consideration value of the Acquisition and the Previous Acquisition of approximately 18.0 times and 13.4 times respectively are within the price to earnings multiples of a number of comparable companies that are engaged in the publication sector and listed in Hong Kong (including Oriental Press Group Limited, Next Media Limited, SCMP Group Limited, Ming Pao Enterprise Corporation Limited and TOM Group Limited):

Comparable Company	Market capitalization as at 17th August, 2004 (HK\$'000)	Audited profit/(loss) (HK\$'000)	Approximate price to earnings multiple (times)
Oriental Press Limited	6,654,222	438,797	15.16
Next Media Limited	4,108,873	(899,920)	NA
SCMP Group Limited	4,487,718	1,762	2,546.95
Ming Pao Enterprise Corporation Limited	576,165	41,864	13.76
TOM Group Limited	6,145,273	12,598	487.80

LETTER FROM THE BOARD

The price to earnings multiples of the comparables were calculated based on the audited profit figures of SCMP Group Limited and TOM Group Limited for the year ended 31st December, 2003 and the other comparables for the year ended 31st March, 2004. The price to earnings multiples of the above industry comparables range from the lowest of approximately 13.76 times to the highest of approximately 2,546.95 times. Accordingly, the price to earnings multiple of JDH of 18.0 times, calculated on the basis of the valuation of JDH for the Acquisition and the audited profit of JDH for the year ended 31st March, 2004, is within the price to earnings multiple of the industry comparables set out above.

The Directors have taken into account the following price to earnings multiples of the industry comparables as set out in the circular of the Company dated 22nd March, 2004 for determining the consideration of the Previous Acquisition. A summary of which is set out as follows:

Comparable Company	Market capitalization as at 26th February, 2004 (HK\$'000)	Audited profit (HK\$'000)	Approximate price to earnings multiple (times)
Oriental Press Limited	6,953,962	340,186	20.44
Next Media Limited	4,765,382	367,552	12.97
SCMP Group Limited	5,658,428	102,547	55.18
Ming Pao Enterprise Corporation Limited	831,682	31,258	26.61
TOM Group Limited	9,016,959	12,598	715.75

As disclosed in the circular of the Company dated 22nd March, 2004, the price to earnings multiples of the comparables were calculated based on the audited profit figures of SCMP Group Limited for the year ended 31st December, 2002, TOM Group Limited for the year ended 31st December, 2003 and the other comparables for the year ended 31st March, 2003. The price to earnings multiples of the above industry comparables range from the lowest of approximately 12.97 times to the highest of approximately 715.75 times; and

4. the deferral payment terms for approximately two third of the total consideration in the form the Convertible Notes with favourable terms to the Company.

Since the Previous Acquisition, the external animation and comics markets has rapidly grown as illustrated by the huge demand of contents from major cities in the PRC that in turn has boosted the business of the JDH. Following the Previous Acquisition, the Company has been approached by a number of local and PRC media enterprises including but not limited to broadcasters, publishers and theatrical film production companies for adaptation of the titles of JDH for animated TV episodes and theatrical films which may create a

LETTER FROM THE BOARD

huge business potential for other animation-derived products in the PRC markets. Commercial negotiations with the media enterprises in relation to the adaptation of titles including The Weapon, Super Dragon and Tiger Heros and Legend of Emperor has commenced and the production process for animated theatrical film of The Invincible Amour (adapted from The Weapon) has already commenced while the trailers of the Weapon, Super Dragon and Tiger Heros and The Saint for demonstration purposes have been completed and positive responses have been received in Hong Kong and the PRC. Further, identifications of other titles for similar adaptation are under process. The Directors expects that the animated TV episodes and films of the titles, once proved successful, will create a huge market for animation-derived comic books and other animation-derived products like toys, apparels, stationery and premium items in the PRC. Given factors outlined above and the increase in the growth and revenue potential of the JDH since the Previous Acquisition, the Directors consider that JDH deserves a higher valuation.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Net tangible assets

Based on the pro-forma statement of unaudited adjusted consolidated net tangible assets of the Group as set out in Appendix I to this circular, the Group has pro-forma unaudited adjusted consolidated net tangible assets of approximately HK\$40.5 million before Completion and pro-forma unaudited adjusted consolidated net tangible liabilities of approximately HK\$45.1 million after Completion. Based on 714,106,184 Shares in issue upon Completion, the pro-forma unaudited adjusted consolidated net tangible liabilities per Share immediately after Completion will be approximately HK\$0.063.

Earnings

For the two years ended 31st March, 2004, the Group recorded audited loss of approximately HK\$24.3 million and audited profit of approximately HK\$13.5 million respectively.

Upon Completion, JDH will become a wholly-owned subsidiary of the Company. Given that JDH has made net profits in the amounts as already mentioned in the paragraph headed "Information on JDH" in this section, the Group will capitalize the entire JDH's net profits.

CONNECTIONS BETWEEN THE PARTIES

JDH is beneficially owned as to 42.85% by Mr. Wong and his associates, who is also the ultimate controlling shareholder of the Company through his equity interest in Super Empire. In addition, five Directors currently hold directorships in the JDH Group and together with their associates hold approximately 5.31% of the total issued share capital of JDH in aggregate. Accordingly, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and thus, is subject to the approval of the Independent Shareholders at the SGM. The Vendors, Super Empire, Pariaian and their respective associates will abstain from voting in respect of the Acquisition at the SGM.

LETTER FROM THE BOARD

SGM

The SGM will be held on Thursday, 30th September, 2004 at 3:00 p.m. at 11th Floor, Safety Godown Industrial Building, 56 Ka Yip Street, Chai Wan, Hong Kong for the purpose of considering, and if thought fit, approving the Acquisition. As the transaction contemplated under the Agreement is a connected transaction, only the Independent Shareholders will be entitled to vote on the resolution at the SGM and such votes will be taken by way of a poll pursuant to the Listing Rules. A notice of the SGM is set out on pages 116 to 118 of this circular.

The form of proxy for use at the SGM is enclosed. If you are not able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

PROCEDURE TO DEMAND A POLL AT THE SGM

Pursuant to Bye-law 66 of the Company's Bye-laws, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (i) by the chairman of such meeting; or
- (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

LETTER FROM THE BOARD

RECOMMENDATIONS

CSC has been appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the Acquisition. The text of the letter of advice from CSC containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 35 of this circular.

The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of the Acquisition, is also set out on page 19 of this circular.

The Board considers that the Acquisition is fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the SGM for approving the Acquisition as set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Ko Chi Keung
Director



JADE DYNASTY GROUP LIMITED

玉皇朝集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

(formerly known as Jade Dynasty Food Culture Group Limited)

15th September, 2004

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to give our advice on the Acquisition, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 15th September, 2004 (the "Circular"), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

CSC has been appointed as the independent financial advisor to advise us regarding the Acquisition. The letter of advice from CSC is set out in pages 20 to 35 of the Circular.

Having considered the terms and conditions of the Acquisition, the advice given by CSC and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition.

Your faithfully,
For and on behalf of the
Independent Board Committee
Ho Yiu Ming and Kwong Chi Keung
Independent non-executive Directors

* *for identification purposes only*

LETTER OF ADVICE FROM CSC

The following is the text of a letter of advice to the Independent Board Committee dated 15th September, 2004 from CSC in respect of the Acquisition prepared for the purpose of incorporation in this document.



**CAPITAL
CSC Asia Limited**

Units 3204-07, 32th Floor, Cosco Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

15th September, 2004

*To the Independent Board Committee and
the Independent Shareholders of
Jade Dynasty Group Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN
JADE DYNASTY HOLDINGS LIMITED**

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed acquisition by the Company of 49.0% interest in JDH from the Vendors, particulars of which have been set out in a circular to the Shareholders dated 15th September, 2004 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

JDH is beneficially owned as to 42.85% by Mr. Wong, who is also the ultimate controlling shareholder of the Company through his equity interest in Super Empire, and his associates. In addition, five Directors currently hold directorships in the JDH Group and together with their associates hold approximately 5.31% of the total issued share capital of JDH in aggregate. Accordingly, the Acquisition constitutes a major and connected transaction for the Company pursuant to the Listing Rules and thus, is subject to the approval of the Independent Shareholders at the SGM.

CSC has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to give our recommendation as to whether the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned. Details of the reasons for the Acquisition are set out in the section headed "Letter from the Board" in the Circular (the "Board Letter").

LETTER OF ADVICE FROM CSC

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Group and have assumed that all information and representations made by the Group and the Directors were true, accurate and complete at the time they were made and continue to be so as at the date of the Circular. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the affairs of the Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Acquisition, we have taken into consideration the following factors:

1. Background information

As stated in the Board Letter, the Group is principally engaged in the operation of comics publication and related business substantially through its 51% equity interest in JDH. Upon a review of the Company's annual report for the year ended 31st March, 2004 (the "Annual Report"), we note that the Group recorded a turnover of approximately HK\$166,465,000 for the year ended 31st March, 2004, representing an approximately 29.20% decrease when compared with the turnover of approximately HK\$235,133,000 recorded during the year ended 31st March, 2003. Although the Group's turnover decreased substantially during the year ended 31st March, 2004, the Group managed to turn around its loss making position. During the year ended 31st March, 2004, the Group recorded a profit of approximately HK\$13,534,000 as compared with a loss of approximately HK\$24,347,000 recorded during the year ended 31st March, 2003. The Directors attribute the improvement in the results to the gain on disposal of the loss-making G. Sushi operations in November 2003, the success in cost rationalization and the contribution from the comics publication business which commenced in March 2003. The Annual Report states that the Group has diversified into the comics publication business with a newly created comics title series, namely The Four Famous Detectives (四大名捕) which was launched in March 2003 on a bi-weekly basis and was subsequently changed to a weekly basis as a result of its encouraging response from the market. It has been the most profitable operation of the Group since then.

The Company announced on 7th June, 2004 that it had conducted a top-up placing of 70,000,000 Shares which raised net proceeds of approximately HK\$20.9 million. Proceeds received from this placing will be used for the development of the Group's existing comics publication and related business.

LETTER OF ADVICE FROM CSC

On 30th June, 2004, the Company announced that the Group had disposed the Suishaya Japanese Restaurant operations through the disposal of its interest in Pacific Glory Limited ("Pacific Glory") at a consideration of HK\$5,000,000. As stated in the relevant announcement, Pacific Glory suffered losses of approximately HK\$3.9 million and HK\$0.5 million during the two years ended 31st March, 2003 respectively. In addition, Pacific Glory had unaudited net liabilities of approximately HK\$65 million as at 30th September, 2003. Due to uncertain business prospects of the Suishaya Japanese Restaurant, the net liabilities position of Pacific Glory and the consideration received, the Directors considered that the disposal of Pacific Glory will be in the interest of the Company and the Shareholders as a whole.

2. Reasons for the Acquisition

As explained in the Board Letter, the Directors believe that the Acquisition will make further valuable contribution to the Group's future prospects and will reinforce the present corporate mission of the Company to develop the JDH Group into a top-class comics empire based in the PRC with unique Chinese style. The Directors consider that the market of comics and related products in the PRC is promising, which can be justified by (i) huge demand for contents from major cities in the PRC for adaptation for animated TV episodes and theatrical films which may create various business opportunities such as animation-derived comics books and other animation-derived products like toys, apparels, stationery and premium items; and (ii) the magazines and books distribution market will be fully liberalized in or about December 2004 following the PRC's accession to the WTO thus bring about a more efficient comic book distribution mechanism in the PRC. The Company at present has an effective 51% equity interests in JDH, and the Company will have a 100% control of JDH and a total of 8 local comic titles in Hong Kong and Taiwan upon Completion. The Acquisition will also enable the Company to capitalize the entire future contributions from JDH. The Directors are of the view that the future growth prospects of JDH especially in the PRC's cultural industry could be significantly improved and therefore it is desirable to acquire the remaining 49% equity interest in JDH the sooner the more beneficial. We consider that it is beneficial to the Company to develop in a growing industry or market at an earlier time in order to realize greater return.

According to the Annual Report, the Group's turnover generated from its comics publication business and restaurant operations contributed approximately HK\$6,049,000 and HK\$160,416,000 respectively to the Group's turnover of approximately HK\$166,465,000 recorded during the year ended 31st March, 2004. In view that the Group had disposed of a substantial portion of its restaurant business, i.e. G. Sushi and Suishaya Japanese Restaurant, we believe that it is beneficial for the Group's overall development to expand its revenue base and further consolidate its foothold in the comics publication business. Although the Group has already obtained the control of JDH through its 51% shareholding in JDH, the Acquisition will allow the Group to exert full control on JDH and give the Group higher flexibility in the operations of JDH without incurring unnecessary compliance cost and time arising from the complication of potential connected transaction by virtue of fact

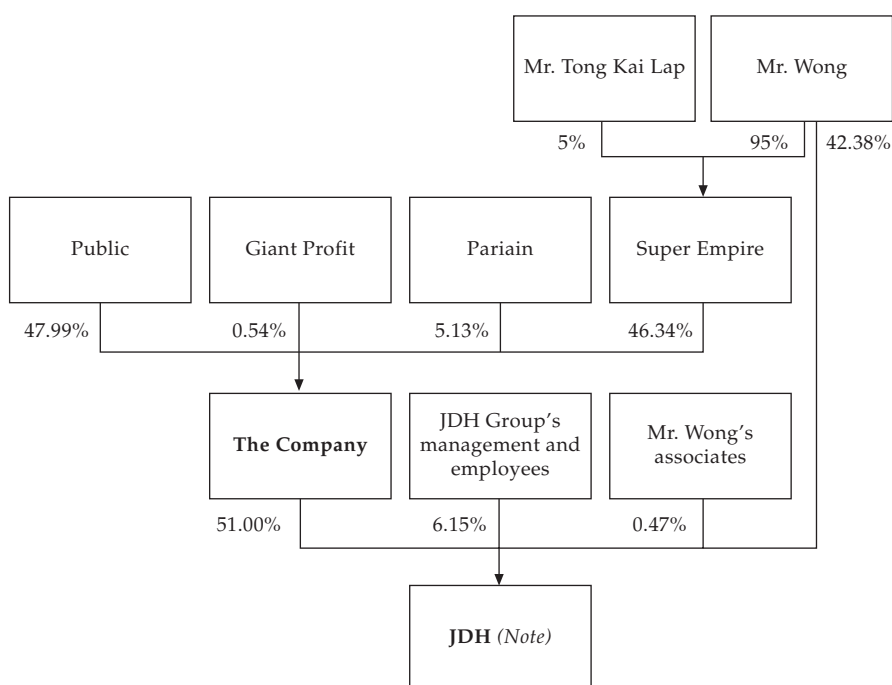
LETTER OF ADVICE FROM CSC

that 49% of JDH are mostly owned by connected persons of the Company. In addition, the Group will be entitled to the entire profit generated by JDH and it is expected that the Acquisition will make further improvement to the Group's bottom line. We believe the Acquisition is in line with the corporate mission of the Company and the use of proceeds from the top-up placing announced by the Company on 7th June, 2004.

3. Information of JDH

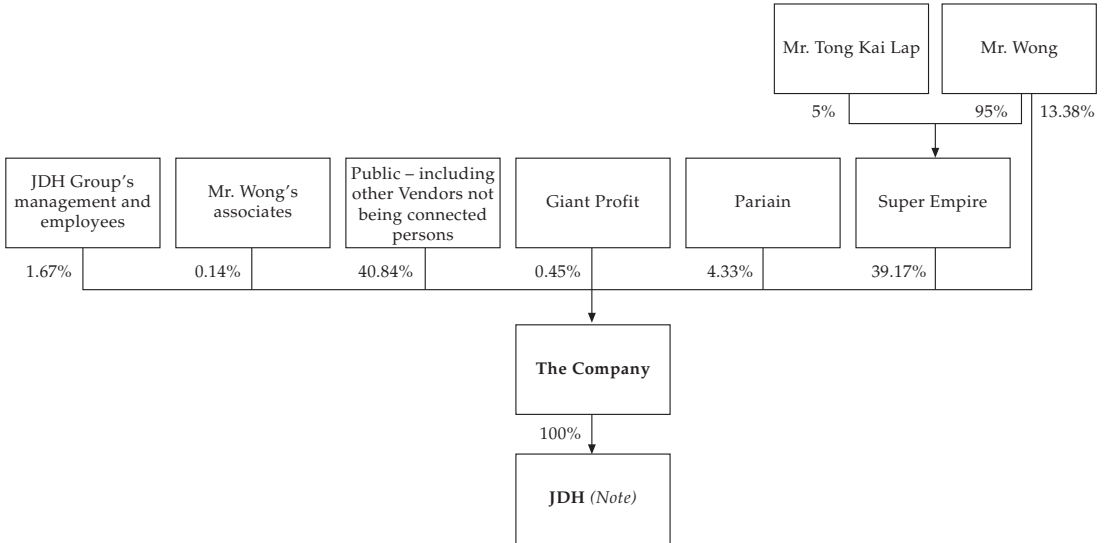
3.1 Structure of the Company and JDH

Before the Completion



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Following the Completion and full conversion of the Convertible Notes



Note: As at the Latest Practicable Date, the JDH Group comprised of the following wholly-owned subsidiaries: Jade Dynasty Publishing Company Limited, Jade Dynasty Publications Limited, Jade Dynasty Retail and Advertising Limited, JD Global IP Rights Limited, KINGcomics.com Limited, Rising Dragon Publications Limited, Yuk Long Multimedia Limited, Yuk Long (Overseas) Limited, Yuk Long Publishing (International) Company Limited, Yuk Long Production (China) Limited and Yuk Long Cultural Development (Shenzhen) Limited (玉郎文化發展(深圳)有限公司).

3.2 Information on JDH

JDH was incorporated in the British Virgin Islands with limited liability. It is the holding company of the companies constituting the JDH Group as stated in the note to section 3.1 above. As at the Latest Practicable Date, JDH was owned as to 51.00% by the Company, approximately 42.38% by Mr. Wong, approximately 0.47% by Mr. Wong's associates and approximately 6.15% by the management and employees of the JDH Group.

As stated in the Board Letter, the JDH Group is principally engaged in the business of publishing and distributing comic publications as well as the sales of derivative products related to its comic titles mainly in Hong Kong and Taiwan. The JDH Group also licenses the distribution rights of its comic titles in overseas markets such as Taiwan, South Korea, Southeast Asian countries (including Thailand, Indonesia, Malaysia) and Europe. Making use of the core strength in producing comic work, the JDH Group has already been implementing its plans to explore the comic book market and related animation movie market in the PRC. The Company has been approached by a number of local and PRC media enterprises including but not limited to broadcasters, publishers and theatrical film production companies for adaptation of the titles of JDH for animated TV episodes and theatrical films which may create a huge business potential for other animation-derived products in the PRC markets. Commercial negotiations with the media enterprises in relation to the

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adaptation of titles including The Weapon (神兵玄奇), Super Dragon and Tiger Heros (龍虎五世) and Legend of Emperor (天子傳奇) has commenced and the production process for animated theatrical film of The Invincible Amour (神兵玄奇) (adapted from The Weapon (神兵玄奇)) has already commenced while the trailers of The Weapon (神兵玄奇), Super Dragon and Tiger Heros (龍虎五世) and The Saint (大聖王) for demonstration purposes have been completed and positive responses have been received in Hong Kong and the PRC. Further, identifications of other titles for similar adaptation are under process.

As stated in Appendix II "Accountants' Report on the JDH Group" in the Circular, the JDH Group recorded a turnover of approximately HK\$105,771,000 during the year ended 31st March, 2004, representing an approximately 20.45% decrease from the annualized turnover of approximately HK\$132,968,000 generated during the 15 months ended 31st March, 2003 (15 months ended 31st March, 2003: HK\$166,210,000). During the year ended 31st March, 2004, JDH made a consolidated profit after taxation of approximately HK\$11,123,000. JDH's consolidated profit for the year ended 31st March, 2004 represents a slight increase of approximately 0.61% over the annualized profit of approximately HK\$11,056,000 recorded during the 15 months ended 31st March, 2003 (15 months ended 31st March, 2003: HK\$13,820,000).

The Independent Shareholders should note that according to the audited accounts of JDH for the 15 months ended 31st March, 2003, JDH made an exceptional gain of approximately HK\$7,018,000 arising out of a proper adoption in accounting policy from merger accounting to acquisition accounting as a correction of fundamental errors. On 31st October, 2000, the JDH Group underwent a reorganization and in the 15 months ended 31st March, 2003, JDH discovered that merger accounting was erroneously adopted for the years ended 31st December, 2000 and 2001. As required by the Hong Kong Statement of Standard Accounting Practice 27 – Accounting for group reconstructions ("SSAP 27"), acquisition accounting should be used for all group reorganization unless all criteria of merger accounting under SSAP 27 are met. Accordingly JDH adopted acquisition accounting to account for the aforesaid reorganization with retrospective effect during the 15 months ended 31st March, 2003. If taking out the exceptional gain as mentioned above, the profit of JDH would be approximately HK\$6,802,000 for the 15 months ended 31st March, 2003, translating to a profit of approximately HK\$5,442,000 (the "Adjusted Profit") on an annualized basis. Accordingly, JDH's profit for the year ended 31st March, 2004 of approximately HK\$11,123,000 as mentioned above represents an approximately 104.39% increase compared with the Adjusted Profit.

Further information on JDH are set out in the section headed "Information on JDH" in the Board Letter.

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4. Principal terms of the Acquisition

4.1 Basis of the consideration

The aggregate consideration (the "Consideration") under the Agreement is HK\$98,000,000 which shall be satisfied as to HK\$65,300,000 by issuing the Convertible Notes and HK\$32,700,000 by cash. The Independent Shareholders should note that the consideration for the Previous Acquisition where the Group had acquired its current 51% interest in JDH was HK\$51,000,000. On a per JDH's share (the "JDH Share(s)") basis, the consideration for the Acquisition represents a premium of 100% over that of the Previous Acquisition. It is stated in the Board Letter that the external animation and comics markets has rapidly grown as illustrated by the huge demand of contents from major cities in the PRC that in turn has boosted the business of JDH since the Previous Acquisition. Following the Previous Acquisition, the Company has been approached by a number of local and PRC media enterprises including but not limited to broadcasters, publishers and theatrical film production companies for adaptation of the titles of JDH for animated TV episodes and theatrical films which may create a huge business potential for other animation-derived products in the PRC markets. Given with other factors described in the section headed "Factors taken into account for the consideration of Acquisition" in the Board Letter, and the increase in the growth and revenue potential of the JDH Group since the Previous Acquisition, the Directors consider that JDH deserves a higher valuation.

As stated in the Board Letter, the Consideration was determined after arm's length negotiation between the parties concerned and with reference to the audited consolidated net tangible asset value of JDH as at 31st March, 2004 of approximately HK\$21.9 million. In addition to the audited consolidated net tangible assets of JDH, the consideration was also determined with reference to the future earning potential of JDH, the price to earnings multiple of JDH and the deferral payment of the Consideration in the form of the Convertible Notes. We are of the view that arriving at a fair value of the revenue potential of JDH would be too complex and arbitrary in the context of our analysis. Although the JDH valuation under the Acquisition doubles that under the Previous Acquisition, we are of the view that the consideration for the Previous Acquisition on a per JDH Share basis should not be the sole basis for determining the fairness and reasonableness of the Consideration since the parties concerned, the business environment, the financial results of JDH and its anticipated earning potential are/can be different when negotiating the terms of the Acquisition and the Previous Acquisition. Accordingly, we have made the following analysis to determine the fairness and reasonableness of the Consideration.

4.1.1 Price to earnings multiple

With the Consideration of HK\$98,000,000 for 490,000 JDH Shares, the Company is effectively paying HK\$200 per JDH Share. On that basis, the entire outstanding 1,000,000 JDH Shares are valued at HK\$200,000,000 (the "JDH Valuation"). For the purpose of comparison, we set out below the market capitalization as at 17th August, 2004 (the date of the Agreement), the latest audited net profit after tax as per the latest annual report and the price to earnings multiple (market capitalization/profit)

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of 10 comparable companies that are engaged in the publication sector and listed in Hong Kong. These industry comparables are all of the companies identified by us in our research that are mainly engaged in the publication of newspapers and/or magazines.

	The JDH Valuation <i>(HK\$ '000)</i>	Audited profit of JDH <i>(HK\$ '000)</i>	Approximate price to earnings multiple <i>(times)</i>
JDH (Note 1)	200,000	11,123	17.98
	Market capitalization as at 17th August, 2004 <i>(HK\$ '000)</i>	Audited profit/ (loss) <i>(HK\$ '000)</i>	Approximate price to earnings multiple <i>(times)</i>
The Company (Note 2)	271,360	13,534	20.05
Oriental Press Group Limited <i>(Note 3)</i>	6,654,222	438,797	15.16
Next Media Limited <i>(Note 4)</i>	4,108,873	(89,920)	N/A
Culturecom Holdings Limited <i>(Note 5)</i>	1,400,637	(72,467)	N/A
SCMP Group Limited <i>(Note 6)</i>	4,487,719	1,762	2,546.95
Ming Pao Enterprise Corporation Limited <i>(Note 7)</i>	576,165	41,864	13.76
TOM Group Limited <i>(Note 8)</i>	6,145,273	12,598	487.80
Leadership Publishing Group Limited <i>(Note 9)</i>	57,518	(103,865)	N/A
Jessica Publications Limited <i>(Note 10)</i>	227,988	(1,515)	N/A
Capital Publications Limited <i>(Note 11)</i>	35,455	(3,439)	N/A
		Mean <i>(Note 12):</i>	616.74
		Median <i>(Note 12):</i>	20.05

Source: <http://www.hkex.com.hk/> and ET Net

Note 1: The JDH Valuation was calculated based on 1,000,000 JDH Shares in issue as at 17th August, 2004 and an acquisition cost of HK\$200 per JDH Share. The profit of approximately HK\$11,122,910 is an audited figure obtained from JDH's accounts for the year ended 31st March, 2004.

Note 2: The Company, together with its subsidiaries, are principally engaged in the operation of comics publication and related business. The market capitalization of the Company was calculated based on 714,106,184 Shares in issue and a closing price of HK\$0.38 per Share on 16th August, 2004 (being the last trading day of the Shares before the signing of the Agreement). The profit of approximately HK\$13,534,000 is an audited figure obtained from the Annual Report.

LETTER OF ADVICE FROM CSC

- Note 3:* Oriental Press Group Limited, together with its subsidiaries, are principally engaged in the publication of newspapers and magazines, property investment and building management. The market capitalization of Oriental Press Group Limited was calculated based on 2,397,917,898 shares in issue and a closing price of HK\$2.775 per share on 17th August, 2004. The profit of approximately HK\$438,797,000 is an audited figure obtained from the company's latest annual report for the year ended 31st March, 2004.
- Note 4:* Next Media Limited, together with its subsidiaries, are principally engaged in the printing and reprographic services, magazine publishing and advertising, internet content provision and advertising. The market capitalization of Next Media Limited was calculated based on 1,480,674,881 shares in issue and a closing price of HK\$2.775 per share on 17th August, 2004. The loss of approximately HK\$89,920,000 is an audited figure obtained from the company's latest annual report for the year ended 31st March, 2004.
- Note 5:* Culturecom Holdings Limited, together with its subsidiaries, are principally engaged in the publication of comics and related business, sales of Chinese operating system, processor, eTextbook and application software and investment holding. The market capitalization of Culturecom Holdings Limited was calculated based on 3,334,849,642 shares in issue and a closing price of HK\$0.42 per share on 17th August, 2004. The loss of approximately HK\$72,467,000 is an audited figure obtained from the company's latest annual report for the year ended 31st March, 2004.
- Note 6:* SCMP Group Limited, together with its subsidiaries, are principally engaged in the publishing, printing and distribution of newspapers and other print and online publications, retailing, music publishing, video and film post-production, recreation clubs, education and holding of properties for rental income purpose. The market capitalization of SCMP Group Limited was calculated based on 1,560,945,596 shares in issue and a closing price of HK\$2.875 per share on 17th August, 2004. The profit of approximately HK\$1,762,000 is an audited figure obtained from the company's latest annual report for the year ended 31st December, 2003.
- Note 7:* Ming Pao Enterprise Corporation Limited, together with its subsidiaries, are principally engaged in the publication of Chinese newspapers, periodicals and books, provision of travel and related services and property investment. The market capitalization of Ming Pao Enterprise Corporation Limited was calculated based on 397,355,000 shares in issue and a closing price of HK\$1.45 per share on 17th August, 2004. The profit of approximately HK\$41,864,000 is an audited figure obtained from the company's latest annual report for the year ended 31st March, 2004.
- Note 8:* TOM Group Limited, together with its subsidiaries, are principally engaged in the provision of Internet, media and advertising services in Greater China. The market capitalization of TOM Group Limited was calculated based on 3,889,413,365 shares in issue and a closing price of HK\$1.58 per share on 17th August, 2004. The profit of approximately HK\$12,598,000 is an audited figure obtained from the company's latest annual report for the year ended 31st December, 2003.
- Note 9:* Leadership Publishing Group Limited, together with its subsidiaries, are principally engaged in the publication and distribution business including books, audio-visual products, electronic publishing products, newspaper and magazine. The market capitalization of Leadership Publishing Group Limited was calculated based on 991,685,971 shares in issue and a closing price of HK\$0.058 per share on 17th August, 2004. The loss of approximately HK\$103,865,000 is an audited figure obtained from the company's latest annual report for the year ended 31st March, 2004.
- Note 10:* Jessica Publications Limited, together with its subsidiaries, are principally engaged in the publication of monthly Chinese language magazines for female readers. The market capitalization of Jessica Publications Limited was calculated based on 506,639,716 shares in issue and a closing price of HK\$0.45 per share on 17th August, 2004. The loss of approximately HK\$1,515,000 is an audited figure obtained from the company's latest annual report for the year ended 31st December, 2003.

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Note 11: Capital Publications Limited, together with its subsidiaries, are principally engaged in the publication and marketing of monthly Chinese financial and economic magazine. The market capitalization of Capital Publications Limited was calculated based on 506,498,344 shares in issue and a closing price of HK\$0.07 per share on 17th August, 2004. The loss of approximately HK\$3,439,000 is an audited figure obtained from the company's latest annual report for the year ended 31st December, 2003.

Note 12: The mean and median calculated do not take into account of those loss making companies.

As demonstrated in the above comparison only 5 out of the 10 comparables made profits in their preceding financial years. Excluding those loss-making companies, the price to earnings multiples of the comparables range from approximately 13.76 times to 2,546.95 times with the median and mean price to earnings multiple being approximately 20.05 times and 616.74 times respectively. JDH's price to earnings multiple of approximately 17.98 times is below the median price to earnings multiple which is the price to earnings multiple of the Company, the major profitable assets of which being its 51% interest in the issued share capital of JDH, and is far below the mean price to earning multiple. Moreover, if we treat the Previous Acquisition and the Acquisition as a single transaction to gain 100% control of JDH by the Company, the total consideration of the Acquisition and the Previous Acquisition is HK\$149 million which represents a price to earnings multiple of JDH of approximately 13.40 times based on the net profit of JDH for the year ended 31st March, 2004 which is even less than the lowest price to earnings multiples of the comparables mentioned above. Even if Tom Group Limited and SCMP Group Limited, which have exceptionally high price to earnings multiples, are excluded, the price to earnings multiple of JDH is close to the mean and median price to earnings multiple of the remaining comparables, being 16.32 times and 15.16 times respectively. On this basis, we are of the view that the Consideration is fair and reasonable to the Independent Shareholders.

We would like to point out that the costs of investment of connected parties of the Company in JDH as shown in the Board Letter range from HK\$32.01 per JDH Share to HK\$349.22 per JDH Share. Since the Company is paying HK\$200 for each JDH Share, Noble River Limited, a shareholder of JDH whose investment cost is HK\$349.22 per JDH Share, will be suffering a loss of HK\$149.22 per JDH Share as a result of the Acquisition.

As a further reference for the Independent Shareholders, in the event that the Convertible Notes are fully converted, 130,666,666 Shares will be issued. Based on the price of HK\$0.38 per Share on 16th August, 2004 (being the last trading of the Shares before the signing of the Agreement), the Conversion Shares have a value of approximately HK\$49,653,000. Together with HK\$32,700,000 cash consideration, the consideration of the Acquisition would have a value of approximately HK\$82,353,000, representing a price to earnings multiple of approximately 15.12 times.

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4.1.2 Price to book ratio

As at 31st March, 2004, JDH had an audited consolidated net asset value of approximately HK\$25,320,000. With the JDH Valuation of HK\$200,000,000 as mentioned in section 4.1 above, JDH has a price to book ratio (market capitalization/net asset value) of approximately 7.90 times. Upon inspection of the financial statements of the industry comparables shown in section 4.1 above, we note that the majority of them have a significant portion of fixed assets such as plant and machinery used for the printing of newspapers and/or magazines. As JDH does not own such facilities and in fact has engaged printing companies outside the JDH Group when printing service is required, we are of the view that a comparison of JDH's price to book ratio with those of the industry comparables is not relevant as they have different operation models.

4.2 *Terms of the Convertible Notes*

Out of the entire Consideration of HK\$98,000,000, HK\$65,300,000 will be satisfied by the issuance of the Convertible Notes to the Vendors while the remaining balance of HK\$32,700,000 will be satisfied by cash payment upon the Completion. We believe satisfying the majority of the Consideration by the Convertible Notes is beneficial to the Group as this arrangement will not create any immediate pressure on the Group's cash flow position and can strengthen the Company's capital base when the market price of the Shares reaches/exceeds the Conversion Price. In the event that the Convertible Notes are fully converted into Shares, the Group will not be required to make further cash payments other than the initial cash payment of HK\$32,700,000 under the Agreement. The Independent Shareholders should note that the conversion of the Convertible Notes will lead to dilution of their shareholding in the Company, the effects of which are described in section 4.2.4 below.

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4.2.1 Interest rate

Holders of the Convertible Notes will be entitled to receive interest commencing from the date of issue of the Convertible Notes up to (but excluding) the Maturity Date at the rate of 2% per annum on the principal amount outstanding. Interest shall be payable semi-annually at the end of each successive 6-month's interval falling after the issue date. For the purpose of comparison, we have identified 11 recent transactions involving the issuance of convertible notes or bonds conducted by listed issuers in Hong Kong.

Name of company	Date of announcement	Interest rate <i>% per annum</i>	Approximate premium/ (discount) to the interest rate of the Convertible Notes %	Period from the date of issue of convertible notes/bonds to maturity date <i>years</i>
The Company	24th August, 2004	2	N/A	3
Central China Enterprises Limited	25th June, 2004	8.5	325	2
Medtech Group Company Limited	15th June, 2004	4	100	2
China United International Holdings Limited	11th June, 2004	7.8	290	5
Golden Meditech Company Limited	9th June, 2004	1	(50)	3
Regal Hotels International Holdings Limited	8th June, 2004	2	0	3
Yugang International Limited	25th May, 2004	3	50	3
S.A.S. Dragon Holdings Limited	19th May, 2004	0.1	(95)	2
Asia Logistics Technologies Limited	1st April, 2004	0.75	(62.5)	3
Thiz Technology Group Limited	29th March, 2004	2.5	25	3
Cheung Tai Hong Holdings Limited	24th March, 2004	2	0	2
Wing On Travel (Holdings) Limited	17th March, 2004	2	0	3
Mean:		3.06	52.94	2.82

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As demonstrated in the table above, the interest rates range from 0.1% per annum to 8.5% per annum with the mean interest rate being approximately 3.06% per annum. The interest rate of the Convertible Notes of 2% per annum is lower, equal and higher than 5, 3 and 3 of the comparables respectively. In view that the interest rate of the Convertible Notes fall within the range of these comparables, we conclude that the interest rate of the Convertible Notes is fair and reasonable to the Independent Shareholders.

4.2.2 Conversion Price

The Conversion Price of HK\$0.50 represents a premium of approximately 31.6% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on 16th August, 2004 (being the last day of trading of the Shares on the Stock Exchange prior to the signing of the Agreement), a premium of approximately 30.2% to the average closing price of the Shares of HK\$0.384 per Share for the 10 trading days ended 16th August, 2004 and a premium of about 38.9% to the closing price of HK\$0.36 per Share on the Latest Practicable Date. According to the Annual Report, the Company had net asset of approximately HK\$54,641,000 as at 31st March, 2004. With 714,106,184 Shares in issue as at the Latest Practicable Date, the Company's net asset per Share is approximately HK\$0.077. Accordingly, the Conversion Price represents a premium of approximately 549.35% over the Company's net asset per Share. Taking into consideration of the substantial premium of the Conversion Price over the price per Share as quoted on the Stock Exchange and the net assets per Share, we are of the opinion that the Conversion Price is fair and reasonable to the Independent Shareholders.

4.2.3 Maturity and voluntary repayment

The Maturity Date is the third anniversary of the date of issue of the Convertible Notes. The maturity dates of the comparable convertible notes or bonds are set out in section 4.2.1 of this letter. As demonstrated above, the maturity dates of the comparable convertible notes or bonds range from 2 to 5 years following the date of issue of the relevant convertible notes or bonds while the average term is approximately 2.82 years. We believe shorter or longer lengths of term of the Convertible Notes have their own advantages and disadvantages to the Group. For example, the Group will be required to make less interest payment with short term convertible notes. However, this may create pressure on the Group's cash flow position as the Group will be required to repay the entire outstanding amount within a shorter time frame. On the basis that the Convertible Notes' term is within the range of the comparables stated above, we believe that it is fair and reasonable to the Independent Shareholders.

We note from the Board Letter that provisions have been made for the voluntary prepayment of the Convertible Notes by the Company before the Maturity Date. Furthermore, holders of the Convertible Notes have no right to require the repayment or prepayment of the principal due under the Convertible Notes prior to the Maturity Date save for the occurrence of certain acceleration events as specified in the Convertible Notes (such as interest payment default, insolvency or breach of

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conditions). We consider that such provisions are beneficial to the Group as it can prepay the Convertible Notes according to its working capital requirements and be able to pay less overall interest and result in less dilution effect on the Independent Shareholders. Accordingly, we believe that voluntary prepayment by the Group is fair and reasonable to the Independent Shareholders.

4.2.4 Potential dilution effect on the Independent Shareholders upon conversion of the Convertible Notes

We set out below a table showing the shareholding structure of the Company as at the Latest Practicable Date and immediately following the full conversion of the Convertible Notes.

	Shareholding as at the Latest Practicable Date		Shareholding immediately following the full conversion of the Convertible Notes	
	<i>Shares</i>	%	<i>Shares</i>	%
Super Empire and its associates				
– Super Empire	330,935,100	46.34	330,935,100	39.17
– Mr. Wong	–	–	113,005,866	13.38
– Ngai Man Kuen, Annie	–	–	459,200	0.05
– Wong Miu Chun	–	–	797,333	0.09
– Wong Chun Keung	–	–	3,155,200	0.37
– Rapid Alert International Limited	–	–	2,774,400	0.33
– Wong Miu Ling, Patricia	–	–	2,551,466	0.30
Wan Siu Lun	–	–	2,620,534	0.31
Noble River Limited (<i>Note</i>)	–	–	3,054,400	0.36
Pariain (<i>Note</i>)	36,599,333	5.13	36,599,333	4.33
Giant Profit	3,833,333	0.54	3,833,333	0.45
Public – other Vendors not being connected persons	–	–	2,248,267	0.27
Public – others	342,738,418	47.99	342,738,418	40.57
	<hr/>	<hr/>	<hr/>	<hr/>
Total	714,106,184	100.00	844,772,850	100.00
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Mr. Wong, through his 95% shareholding in Super Empire, is deemed to be interested in 330,935,100 Shares representing approximately 46.34% of the issued share capital of the Company. Upon the full conversion of Convertible Notes, 122,743,465 Shares representing approximately 14.53% of the enlarged share capital of the Company will be issued to Mr. Wong and his associates, effectively increasing the shareholding of Mr. Wong and his associates in the Company to approximately 53.70% of the enlarged share capital of the Company. The Independent Shareholders should note that Mr. Wong is the ultimate controlling shareholder of the Company before the Acquisition and the conversion of the Convertible Notes will not result in a change of control in the Company.

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The existing Independent Shareholders, namely Giant Profit and other public Shareholders currently hold an aggregate of 346,571,751 Shares or approximately 48.53% of the Company's issued share capital. Following the full conversion of the Convertible Notes, these existing Independent Shareholders will hold the same number of Shares but their interest in the Company will be diluted to approximately 41.03% of the enlarged issued share capital of the Company. Having considered the potential benefits of the Acquisition discussed earlier in this letter, we consider that the potential dilution on the existing Independent Shareholders' interest in the Company is acceptable.

5. Financial effects of the Acquisition

5.1 *Effect on earnings*

As set out in Appendix II to the Circular, JDH made an audited consolidated profit of approximately HK\$11,123,000 for the year ended 31st March, 2004 and HK\$13,820,000 for the 15 months ended 31st March, 2003. On the other hand, as set out in Appendix I to the Circular, the Group recorded an audited consolidated profit of approximately HK\$13,534,000 for the year ended 31st March, 2004 and an audited consolidated loss of HK\$24,347,000 for the year ended 31st March, 2003. As stated in the Annual Report, the profit of the Group recorded in 2004 was mainly attributable to the gain on disposal of the loss-making G. Sushi operations. Without recording such gain, the Group would have made a loss in 2004.

Since the consideration is higher than the consolidated net asset value attributable to 49% interest in JDH, goodwill will arise out of the Group's consolidated accounts. Based on the aggregate consideration of HK\$98,000,000 and the audited consolidated net assets of JDH attributable to the Group as at 31st March, 2004 of approximately HK\$12,407,000, the goodwill will be approximately HK\$85,593,000. According to the Group's accounting policy, the goodwill will be amortized for 20 years. As such, the Group will record an amortization expense of approximately HK\$4,280,000 in respect of the goodwill arising from the Acquisition for each of the 20 years following the Completion.

The audited consolidated profit for the year ended 31st March, 2004 attributable to 49% interest in JDH was approximately HK\$5,450,000. If JDH can maintain its historic performance, its profit contribution should be able to cover the above-mentioned amortization expense. Accordingly, we consider that the Acquisition would potentially provide positive contribution to the Group's earnings.

5.2 *Net asset value*

The audited consolidated net assets of the Company amounted to approximately HK\$54,641,000 as at 31st March, 2004. As set out on page 68 under the section headed "Pro-forma statement of unaudited combined assets and liabilities of the enlarged group as at 31st March, 2004" in Appendix I to the Circular, taking into account of the Previous Acquisition, the pro forma unaudited consolidated net assets of the Company before Completion would have amounted to approximately HK\$85,515,000. The pro forma unaudited consolidated net assets of the Company would remain unchanged after Completion but prior to the full conversion of the Convertible Note.

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It should be brought to the Shareholders' attention that the pro forma unaudited consolidated net assets of the Company after Completion of approximately HK\$85,515,000 comprise goodwill of approximately HK\$127,018,000. Accordingly, the Company would be in a net tangible liability position of approximately HK\$45,076,000. The goodwill arises out of the difference between the considerations under the Acquisition and the Previous Acquisition and the net asset value of JDH. As we have analyzed the fairness and reasonableness of the Consideration, we consider that such goodwill is acceptable to the Independent Shareholders after taking into account the brand name of JDH in the comic market. In any event, such a net liability position will be turned around in the event that the Convertible Note is fully converted.

5.3 Gearing

As set out on page 68 under the section headed "Pro forma statement of unaudited combined assets and liabilities of the enlarged group as at 31st March, 2004" in Appendix I to the Circular, the pro forma consolidated total debts and total assets of the Company before the Completion are approximately HK\$21,390,000 and HK\$143,259,000 respectively, translating into a gearing ratio (total debts/total assets x 100%) of approximately 14.93%. After the Completion, the pro forma consolidated total debts and total assets of the Company would be approximately HK\$86,723,000 and HK\$196,185,000 respectively, translating into a gearing ratio of approximately 44.20%. Such increase is largely due to the issue of the Convertible Note. We are of the view that such increase is acceptable to the Independent Shareholders due to the potentially positive effects of the Acquisition discussed in this letter. In addition, the gearing ratio after the Completion is still regarded to be at healthy level and such ratio will be reduced in case of conversion of the Convertible Note.

5.4 Liquidity

As mentioned earlier in this letter, the Acquisition is largely satisfied by the issue of the Convertible Note. Accordingly, the cash flow position of the Group will not be materially affected except for the payment of the interest of the Convertible Note. As set out in Appendix I to the Circular, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements.

CONCLUSION

Having considered the above principal factors, we are of the opinion that the Acquisition is in the interest of the Group and the Shareholders so far as the Independent Shareholders as a whole are concerned and the terms of the Acquisition, the issuance of the Convertible Notes as consideration for the Acquisition and the terms of the Convertible Notes are fair and reasonable. Accordingly, we would recommend (1) the Independent Board Committee to advise the Independent Shareholders and (2) the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Acquisition at the SGM.

Yours faithfully,
For and on behalf of
CSC Asia Limited
Howard Tang
Director

1. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated income statements of the Group for each of the three years ended 31st March, 2004 and the audited consolidated balance sheets of the Group as at 31st March, 2004, 31st March, 2003 and 31st March, 2002 as extracted from the annual reports of the Company for the relevant years.

	For the year ended 31st March,		
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	166,465	235,133	242,516
Cost of goods sold	(58,631)	(72,931)	(75,792)
Direct operating expenses	(88,368)	(150,451)	(163,799)
	19,466	11,751	2,925
Other operating income	990	2,050	2,742
Selling and distribution costs	(4,221)	(6,575)	(9,908)
Administrative expenses	(22,121)	(22,239)	(23,319)
Deficit on revaluation of leasehold land and buildings	–	(992)	(1,538)
Impairment loss recognised in respect of property, plant and equipment	–	(4,136)	(9,442)
Loss on disposal/write off of property, plant and equipment	(2,794)	(1,032)	(5,132)
Loss from operations	(8,680)	(21,173)	(43,672)
Finance costs	(1,851)	(2,886)	(5,520)
Gain on disposal of subsidiaries	26,023	–	–
Profit/(loss) before tax	15,492	(24,059)	(49,192)
Income tax (expense) credit	(528)	(40)	104
Profit/(loss) before minority interests	14,964	(24,099)	(49,088)
Minority interests	(1,430)	(248)	–
Net profit/(loss) for the year	<u>13,534</u>	<u>(24,347)</u>	<u>(49,088)</u>
Earnings/(loss) per share			
Basic	<u>HK\$0.03</u>	<u>(HK\$0.07)</u>	<u>(HK\$0.16)</u>
Diluted	<u>HK\$0.03</u>	<u>N/A</u>	<u>N/A</u>

Assets and liabilities

	As at 31st March,		
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	3,032	81,679	91,753
Intangible asset	200	200	–
Interest in an associate	–	–	–
	<u>3,232</u>	<u>81,879</u>	<u>91,753</u>
Current assets			
Inventories	234	5,450	5,295
Trade debtors	1,328	1,025	1,793
Other debtors, deposits and prepayments	2,195	16,544	13,160
Pledged bank deposits	–	3,319	6,836
Bank balances and cash	57,379	1,538	3,424
	<u>61,136</u>	<u>27,876</u>	<u>30,508</u>
Current liabilities			
Trade creditors	1,340	10,380	12,388
Other creditors and accrued charges	3,108	13,488	16,539
Amount due to a related company	5	100	–
Taxation payable	274	40	–
Obligations under finance leases			
– amount due within one year	–	71	67
Bank borrowings (secured)			
– amount due within one year	–	46,015	12,713
Other loan	5,000	37,000	–
Loan from a related company	–	5,000	–
Loan from a former shareholder	–	–	73,267
	<u>9,727</u>	<u>112,094</u>	<u>114,974</u>
Net current assets/(liabilities)	<u>51,409</u>	<u>(84,218)</u>	<u>(84,466)</u>
Total assets less current liabilities	<u><u>54,641</u></u>	<u><u>(2,339)</u></u>	<u><u>7,287</u></u>

	As at 31st March,		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Capital and reserves			
Share capital	1,119	714	595
Reserves	<u>53,522</u>	<u>(22,859)</u>	<u>(7,913)</u>
	<u>54,641</u>	<u>(22,145)</u>	<u>(7,318)</u>
Minority interests	<u>–</u>	<u>9,184</u>	<u>–</u>
Non-current liabilities			
Obligations under finance leases			
– amount due after one year	–	191	261
Bank borrowings (secured)			
– amount due after one year	<u>–</u>	<u>10,431</u>	<u>14,344</u>
	<u>–</u>	<u>10,622</u>	<u>14,605</u>
	<u>54,641</u>	<u>(2,339)</u>	<u>7,287</u>

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2004

Set out below is the audited financial statements of the Company for the year ended 31st March, 2004, which is extracted from the annual report of the Company for the year ended 31st March, 2004.

Consolidated Income Statement

For the year ended 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	166,465	235,133
Cost of goods sold		(58,631)	(72,931)
Direct operating expenses		(88,368)	(150,451)
		<hr/>	<hr/>
		19,466	11,751
Other operating income	6	990	2,050
Selling and distribution costs		(4,221)	(6,575)
Administrative expenses		(22,121)	(22,239)
Deficit on revaluation of leasehold land and buildings		–	(992)
Impairment loss recognised in respect of property, plant and equipment		–	(4,136)
Loss on disposal/write-off of property, plant and equipment		(2,794)	(1,032)
		<hr/>	<hr/>
Loss from operations	7	(8,680)	(21,173)
Finance costs	8	(1,851)	(2,886)
Gain on disposal of subsidiaries	28	26,023	–
		<hr/>	<hr/>
Profit (loss) before tax		15,492	(24,059)
Income tax expense	12	(528)	(40)
		<hr/>	<hr/>
Profit (loss) before minority interests		14,964	(24,099)
Minority interests		(1,430)	(248)
		<hr/>	<hr/>
Net profit (loss) for the year		<u>13,534</u>	<u>(24,347)</u>
Earnings (loss) per share	13		
Basic		<u>HK\$0.03</u>	<u>HK\$(0.07)</u>
Diluted		<u>HK\$0.03</u>	<u>N/A</u>

Consolidated Balance Sheet*At 31st March, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	14	3,032	81,679
Intangible asset	16	200	200
Interest in an associate	17	–	–
		<hr/>	<hr/>
		3,232	81,879
		<hr/>	<hr/>
Current assets			
Inventories		234	5,450
Trade debtors	19	1,328	1,025
Other debtors		–	307
Deposits and prepayments		2,195	16,237
Pledged bank deposits	31	–	3,319
Bank balances and cash		57,379	1,538
		<hr/>	<hr/>
		61,136	27,876
		<hr/>	<hr/>
Current liabilities			
Trade creditors	20	1,340	10,380
Other creditors and accrued charges		3,108	13,488
Amount due to a related company	21	5	100
Taxation payable		274	40
Obligations under finance leases			
– amount due within one year	22	–	71
Bank borrowings (secured)			
– amount due within one year	23	–	46,015
Other loan	24	5,000	37,000
Loan from a related company	25	–	5,000
		<hr/>	<hr/>
		9,727	112,094
		<hr/>	<hr/>
Net current assets (liabilities)		51,409	(84,218)
		<hr/>	<hr/>
Total assets less current liabilities		<u>54,641</u>	<u>(2,339)</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Capital and reserves			
Share capital	26	1,119	714
Reserves		53,522	(22,859)
		<u>54,641</u>	<u>(22,145)</u>
Minority interests	29	<u>–</u>	<u>9,184</u>
Non-current liabilities			
Obligations under finance leases			
– amount due after one year	22	–	191
Bank borrowings (secured)			
– amount due after one year	23	–	10,431
		<u>–</u>	<u>10,622</u>
		<u>54,641</u>	<u>(2,339)</u>

Balance Sheet*At 31st March, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current asset			
Investments in subsidiaries	15	—	—
Current assets			
Debtors, deposits and prepayments		424	118
Amounts due from subsidiaries	18	2,989	839
Bank balances and cash		52,912	52
		<u>56,325</u>	<u>1,009</u>
Current liabilities			
Creditors and accrued charges		1,499	416
Amount due to a related company	21	—	100
Loan from a related company	25	—	5,000
		<u>1,499</u>	<u>5,516</u>
Net current assets (liabilities)		<u>54,826</u>	<u>(4,507)</u>
Total assets less current liabilities		<u><u>54,826</u></u>	<u><u>(4,507)</u></u>
Capital and reserves			
Share capital	26	1,119	714
Reserves	27	53,707	(5,221)
		<u>54,826</u>	<u>(4,507)</u>

Consolidated Statement of Changes in Equity*For the year ended 31st March, 2004*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i> <i>(Note 27)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	595	167,079	(36,810)	(138,182)	(7,318)
Issue of shares	119	9,401	–	–	9,520
Net loss for the year	–	–	–	(24,347)	(24,347)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1st April, 2003	714	176,480	(36,810)	(162,529)	(22,145)
Issue of shares	405	65,203	–	–	65,608
Share issue expenses	–	(2,356)	–	–	(2,356)
Net profit for the year	–	–	–	13,534	13,534
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2004	<u>1,119</u>	<u>239,327</u>	<u>(36,810)</u>	<u>(148,995)</u>	<u>54,641</u>

Consolidated Cash Flow Statement*For the year ended 31st March, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Profit (loss) before tax		15,492	(24,059)
Adjustments for:			
Bank interest income		(7)	(60)
Interest expenses		1,851	2,886
Depreciation and amortisation		6,346	18,104
Deficit on revaluation of leasehold land and buildings		–	992
Impairment loss recognised in respect of property, plant and equipment		–	4,136
Loss on disposal/written-off of property, plant and equipment		2,794	1,032
Gain on disposal of subsidiaries		(26,023)	–
		<hr/>	<hr/>
Operating cash flows before movements in working capital		453	3,031
Increase in inventories		(1,016)	(155)
(Increase) decrease in trade debtors		(2,163)	768
(Increase) decrease in other debtors		(882)	713
Increase in deposits and prepayments		(2,439)	(4,097)
Increase (decrease) in trade creditors		3,105	(2,008)
Increase (decrease) in other creditors and accrued charges		2,680	(3,099)
		<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES		<hr/> (262) <hr/>	<hr/> (4,847) <hr/>
INVESTING ACTIVITIES			
Interest received		7	60
Purchase of property, plant and equipment		(15,761)	(14,351)
Purchase of intangible asset		(100)	(200)
Proceeds from disposal of property, plant and equipment		3,658	161
Decrease in pledged bank deposits		2,294	3,517
Disposal of subsidiaries	28	8,042	–
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		<hr/> (1,860) <hr/>	<hr/> (10,813) <hr/>

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
FINANCING ACTIVITIES			
Interest paid		(1,363)	(6,479)
(Decrease) increase in amount due to a related company		(95)	100
Advances from minority shareholders of subsidiaries		3,332	8,936
Repayment of loan from a former shareholder		–	(69,626)
New bank loans raised		–	32,528
Repayment of bank loans		(36,814)	–
Repayment of obligations under finance leases		(47)	(66)
Proceeds from the issue of new shares		62,757	9,520
Other loan raised		40,400	37,000
(Decrease) increase in loan from a related company		(5,000)	5,000
Share issue advisory fee	26(4)	495	–
		<u>63,665</u>	<u>16,913</u>
NET CASH GENERATED FROM FINANCING ACTIVITIES			
		<u>63,665</u>	<u>16,913</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		61,543	1,253
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
		<u>(4,164)</u>	<u>(5,417)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
		<u><u>57,379</u></u>	<u><u>(4,164)</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		57,379	1,538
Bank overdrafts		–	(5,702)
		<u><u>57,379</u></u>	<u><u>(4,164)</u></u>

Notes to the Financial Statements

For the year ended 31st March, 2004

1. GENERAL

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

The Company is an investment holding company. Its subsidiaries were principally engaged in the operation of restaurants and publication of comics books in Hong Kong.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

Income Taxes

In the current year, the Company has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

Revenue recognition

Sales of comics books are recognised when comics books are sold.

Sales of goods are recognised when goods are delivered.

Service fees are recognised when services are provided.

Rental income is recognised on a straight-line basis over the relevant lease term.

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

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Property, plant and equipment

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

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment, over their estimated useful lives using the straight-line method, at the following rates per annum:

Leasehold land	Over the term of the leases
Buildings	Over the estimated useful lives of 50 years or over the term of the leases, if less than 50 years
Furniture and equipment	10 – 33 ¹ / ₃ %
Fixtures	10 – 20% or over the term of the leases, whichever is shorter
Motor vehicles	20 – 25%

Initial expenditure incurred for crockery, utensils, linens and uniforms is capitalised and no depreciation is provided thereon. The cost of subsequent replacement for these items is charged to the income statement as and when incurred.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

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

Intangible asset

Intangible asset represents an exclusive right to operate a restaurant under a specific name, is measured initially at cost and amortised on a straight-line basis over the contract period.

Impairment

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

Finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as finance lease obligations. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories comprise food supplies and consumables and are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all costs to be incurred in marketing, selling and distribution.

Foreign currencies

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

Taxation

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

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

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

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods and comics books sold and services rendered in the restaurants during the year, and is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Sale of goods	146,459	214,342
Sale of comics books	6,049	–
Services rendered	13,957	20,791
	<u>166,465</u>	<u>235,133</u>

Services rendered represent surcharge for services provided in the restaurants.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two main operating divisions, namely, publication and distribution of comics books and restaurant operations. These divisions are the basis on which the Group reports its primary segment information.

Income statement for the year ended 31st March, 2004

	Publication and distribution of comics books HK\$'000	Restaurant operations HK\$'000	Consolidated HK\$'000
Turnover	<u>6,049</u>	<u>160,416</u>	<u>166,465</u>
Segment profit (loss)	<u>1,764</u>	<u>(7,776)</u>	(6,012)
Gain on disposal of subsidiaries		26,023	26,023
Unallocated corporate expenses			<u>(4,519)</u>
Profit before tax			15,492
Income tax expense			<u>(528)</u>
Profit after tax and before minority interests			<u>14,964</u>

Balance sheet as at 31st March, 2004

	Publication and distribution of comics books HK\$'000	Restaurant operations HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	2,789	8,243	11,032
Unallocated corporate assets			53,336
Consolidated total assets			64,368
LIABILITIES			
Segment liabilities	1,019	7,314	8,333
Unallocated corporate liabilities			1,394
Consolidated total liabilities			9,727

Other information for the year ended 31st March, 2004

	Publication and distribution of comics books HK\$'000	Restaurant operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	-	15,761	-	15,761
Depreciation and amortisation	-	6,346	-	6,346
Loss on disposal/write off of property, plant and equipment	-	2,794	-	2,794

No segmental information was presented for the year 2003 since the Group was principally engaged in the operation of restaurants in Hong Kong.

Geographical segments

The Group's turnover and profit (loss) before tax for both years are substantially derived from Hong Kong. Accordingly, no analysis by geographical segment is presented.

6. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Bank interest income	7	60
Rental income less outgoings of Nil (2003: HK\$6,000)	393	554
Others	590	1,436
	990	2,050

7. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of intangible asset	100	–
Auditors' remuneration	584	680
Depreciation and amortisation on		
– Owned assets	6,197	18,049
– Assets held under finance leases	49	55
Operating lease payments in respect of rented premises	22,452	35,645
Staff costs, including directors' emoluments (<i>note 9</i>) and retirement benefits scheme contributions (<i>note 11</i>)	53,558	81,633
	<u>53,558</u>	<u>81,633</u>

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on		
– Bank borrowings wholly repayable within five years	558	970
– Bank borrowings not wholly repayable within five years	–	541
– Finance leases	10	19
– Other borrowings	1,283	1,356
	<u>1,851</u>	<u>2,886</u>

9. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Fees to:		
Executive directors	2,051	1,830
Independent non-executive directors	480	533
	<u>2,531</u>	<u>2,363</u>
Other emoluments to executive directors:		
Salaries and other benefits	–	542
Retirement benefits scheme contributions	101	27
	<u>101</u>	<u>569</u>
	<u>2,632</u>	<u>2,932</u>

Emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	9	15
HK\$1,000,001 to HK\$2,000,000	1	–
	<u>10</u>	<u>15</u>

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: none) were directors of the Company as at 31st March, 2004. The total emoluments of the remaining two (2003: five) highest paid individuals were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	2,165	3,464
Retirement benefits scheme contributions	108	173
	<u>2,273</u>	<u>3,637</u>

Their emoluments were within the following bands:

	Number of individuals	
	2004	2003
Nil to HK\$1,000,000	1	4
HK\$1,000,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	1
	<u>2</u>	<u>5</u>

11. RETIREMENT BENEFITS SCHEME CONTRIBUTIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Retirement benefits scheme contributions	143	3,606
Less: Forfeited contributions	–	(42)
	<u>143</u>	<u>3,564</u>

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

12. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment.

The expense for the year can be reconciled to the profit (loss) per the consolidated income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit (loss) before tax	<u>15,492</u>	<u>(24,059)</u>
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 16%)	2,711	(3,849)
Tax effect of expenses that are not deductible for tax purpose	15	1,825
Tax effect of tax losses/deferred tax assets not recognised	2,515	2,029
Utilisation of tax losses previously not recognised	(157)	–
Tax effect of income not taxable for tax purpose	(4,556)	(9)
Others	<u>–</u>	<u>44</u>
Tax expense and effective tax rate for the year	<u>528</u>	<u>40</u>

Details of the unprovided deferred taxation are set out in note 30.

13. EARNINGS (LOSS) PER SHARE

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit (loss) for the purposes of basic and diluted earnings (loss) per share	<u>13,534</u>	<u>(24,347)</u>
Weighted average number of shares for the purposes of basic earnings (loss) per share (<i>Note</i>)	417,600,538	<u>359,541,319</u>
Effect of dilutive potential shares:		
Share options	<u>2,561,043</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>420,161,581</u>	

Note: The weighted average number of ordinary shares for the purpose of basic earnings (loss) per share has been adjusted for the rights issue on 15th January, 2004.

No diluted loss per share has been presented in prior year as the exercise of the Company's share options would reduce the loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Crockery, utensils, linens and uniforms <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST OR VALUATION					
At 1st April, 2003	33,000	200,372	3,509	2,453	239,334
Additions	–	14,834	697	230	15,761
Disposal of subsidiaries	(33,000)	(167,384)	(4,206)	(1,982)	(206,572)
Disposals/write-off	–	(34,799)	–	(463)	(35,262)
At 31st March, 2004	–	13,023	–	238	13,261
DEPRECIATION AND AMORTISATION					
At 1st April, 2003	–	154,353	3,012	290	157,655
Provided for the year	497	5,530	219	–	6,246
Eliminated on disposal of subsidiaries	(497)	(121,134)	(3,231)	–	(124,862)
Eliminated on disposals/ write-off	–	(28,520)	–	(290)	(28,810)
At 31st March, 2004	–	10,229	–	–	10,229
NET BOOK VALUES					
At 31st March, 2004	–	2,794	–	238	3,032
At 31st March, 2003	33,000	46,019	497	2,163	81,679

The Group's leasehold land and buildings were situated in Hong Kong and were held on medium-term leases.

The net book value of property, plant and equipment of the Group included an amount of nil (2003: HK\$278,000) in respect of furniture, fixtures and equipment held under finance leases.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	–	–

At 31st March, 2004, the particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of issued share capital attributable to the Group	Principal activities
Best Spread Limited	Hong Kong	HK\$2	100%	Operation of a restaurant
Jade Dynasty Multi-Media Limited	Samoa	US\$1	100%*	Investment holding
Pacific Glory Holdings Limited	British Virgin Islands	US\$1	100%	Investment holding
Precise Acme Limited	British Virgin Islands	US\$1	100%*	Investment holding
Rich Delight Limited	Hong Kong	HK\$2	100%	Operation of a restaurant
Scorewell Investments Limited	British Virgin Islands	US\$1	100%*	Investment holding
Wide Creation Limited	Hong Kong	HK\$2	100%	Publication of comics books
Suishaya Japanese Restaurant (Kowloon) Limited	Hong Kong	HK\$2	100%	Operation of a restaurant

* *Other than these subsidiaries which are directly held by the Company, all subsidiaries are indirectly held by the Company.*

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

16. INTANGIBLE ASSET

	<i>HK\$'000</i>
THE GROUP	
COST	
At 1st April, 2003	200
Additions	100
	<hr/>
At 31st March, 2004	300
	<hr/>
AMORTISATION	
Charge for the year and at 31st March, 2004	100
	<hr/>
NET BOOK VALUES	
At 31st March, 2004	200
	<hr/> <hr/>
At 31st March, 2003	200
	<hr/> <hr/>

The intangible asset represents an exclusive right to use the name of Mr. Wong Yuk Man, Raymond, an independent third party, in the operation of a restaurant. The cost will be amortised over three years.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net liabilities	–	(1,217)
Amount due from an associate	–	1,217
	<u>–</u>	<u>–</u>

Amount due from an associate was unsecured, non-interest bearing and were not repayable within next twelve months.

18. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Amounts due from subsidiaries	359,622	357,471
Less: Allowance	(356,633)	(356,632)
	<u>2,989</u>	<u>839</u>

19. TRADE DEBTORS

The Group does not define a fixed credit policy as its major trade debtors arise from credit card sales.

The following is an aged analysis of trade debtors at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	790	908
31 – 60 days	538	117
	<u>1,328</u>	<u>1,025</u>

20. TRADE CREDITORS

The following is an aged analysis of trade creditors at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	892	5,023
31 – 60 days	448	4,640
61 – 90 days	–	717
	<u>1,340</u>	<u>10,380</u>

21. AMOUNT DUE TO A RELATED COMPANY

THE GROUP AND THE COMPANY

The related company is a company in which the deemed substantial shareholder of the Company, Mr. Wong Chun Loong ("Mr. Wong"), has a beneficial interest.

The amount is unsecured, interest free and is repayable on demand.

22. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	–	85	–	71
In the second to fifth year inclusive	–	206	–	191
	–	291	–	262
Less: Future finance charges	–	(29)	–	N/A
Present value of lease obligations	<u>–</u>	<u>262</u>	–	262
Less: Amount due within one year shown under current liabilities			–	(71)
Amount due after one year			<u>–</u>	<u>191</u>

It was the Group's policy to lease certain of its furniture, fixtures and equipment under finance leases. The average lease term is 5 years. For the year ended 31st March, 2003, the average effective borrowing rate was 6.26%. Interest rates were fixed at the contract date. All leases were on a fixed repayment basis and no arrangements had been entered into for contingent rental payments.

The Group's obligations under finance leases were secured by the lessor's charge over the leased assets.

The Company had no lease obligations at 31st March, 2004 or 31st March, 2003.

23. BANK BORROWINGS (SECURED)

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank borrowings (secured) comprise:		
Bank loans	–	50,744
Bank overdrafts	–	5,702
	<hr/>	<hr/>
Total	–	56,446
Less: Amount due within one year shown under current liabilities	–	(46,015)
	<hr/>	<hr/>
Amount due after one year	–	10,431
	<hr/> <hr/>	<hr/> <hr/>
The maturity of the above bank borrowings is as follows:		
Within one year or upon demand	–	46,015
More than one year but not exceeding two years	–	4,109
More than two years but not exceeding five years	–	6,322
	<hr/>	<hr/>
	–	56,446
	<hr/> <hr/>	<hr/> <hr/>

24. OTHER LOAN

THE GROUP

The balance in current year is secured, bears interest at the best lending rate per annum and is repayable on demand. Subsequent to the year end, the balance was fully repaid.

The balance in last year was secured, borne interest at one percent per annum and was repayable within one year.

25. LOAN FROM A RELATED COMPANY

THE GROUP AND THE COMPANY

The related company is a company in which the deemed substantial shareholder of the Company, Mr. Wong, has a beneficial interest.

The loan was guaranteed by Mr. Wong, borne interest at the best lending rate plus 1.5% per annum and was repayable on 16th December, 2003. The amount was fully repaid during the year.

26. SHARE CAPITAL

	<i>Notes</i>	Par value of ordinary share <i>HK\$</i>	Number of ordinary shares	Amount <i>HK\$'000</i>
Authorised:				
At 1st April, 2002		0.01 each	50,000,000,000	500,000
Share subdivision	(1)		<u>200,000,000,000</u>	<u>–</u>
At 31st March, 2003 and 31st March, 2004		0.002 each	<u><u>250,000,000,000</u></u>	<u><u>500,000</u></u>
Issued and fully paid:				
At 1st April, 2002		0.01 each	59,524,520	595
Issue of shares	(2)	0.01 each	<u>11,900,000</u>	<u>119</u>
		0.01 each	71,424,520	714
Share subdivision	(1)		<u>285,698,080</u>	<u>–</u>
At 31st March, 2003		0.002 each	357,122,600	714
Issue of shares	(3)	0.002 each	61,500,000	123
Issue of rights shares	(4)	0.002 each	139,540,866	279
Issue of shares as consideration for the rights issue expenses	(4)	0.002 each	<u>1,500,000</u>	<u>3</u>
At 31st March, 2004		0.002 each	<u><u>559,663,466</u></u>	<u><u>1,119</u></u>

Notes:

- (1) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 7th October, 2002 (the "SGM"), every then issued and unissued ordinary shares of HK\$0.01 each on 7th October, 2002 was subdivided into 5 shares of HK\$0.002 each.
- (2) On 20th March, 2002, the Company entered into conditional subscription agreements with two independent investors pursuant to which Mr. Kong Ho Pak and Ms. Mo Yuk Ping subscribed for 6,000,000 and 5,900,000 new shares of HK\$0.01 each in the Company at a price of HK\$0.8 per share respectively. These new shares rank pari passu with the existing shares in all respects. The subscription was completed on 8th April, 2002.
- (3) On 24th October, 2003, the Company entered into a subscription agreement with an independent investor, Mr. Kei Kin Hung for subscription of 61,500,000 new shares of HK\$0.002 each in the Company at a price of HK\$0.31 per share. The new shares rank pari passu with the existing shares in all respects. The subscription was completed on 6th November, 2003.
- (4) On 15th January, 2004, 139,540,866 new shares of HK\$0.002 each were issued by way of a rights issue on the basis of one rights share for every three existing shares then held at an issue price of HK\$0.33 per share ("Rights Issue") and 1,500,000 new shares of HK\$0.002 each at an issue price of HK\$0.33 per share were issued in settlement of the advisory fee payable to Oriental Patron Asia Limited in consideration of its service as one of the joint financial advisors to the Company in connection with the Rights Issue. These new shares rank pari passu with the existing shares in all respects.

27. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st April, 2002	167,079	51,286	(226,289)	(7,924)
Issue of shares	9,401	–	–	9,401
Net loss for the year	–	–	(6,698)	(6,698)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	176,480	51,286	(232,987)	(5,221)
Issue of shares	65,203	–	–	65,203
Share issue expenses	(2,356)	–	–	(2,356)
Net loss for the year	–	–	(3,919)	(3,919)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2004	<u>239,327</u>	<u>51,286</u>	<u>(236,906)</u>	<u>53,707</u>

The special reserve of the Group represents the difference between the nominal amount of the shares of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the shares issued for the acquisition.

The contributed surplus of the Company represents the difference between the underlying consolidated net assets of Global Food Culture Group Limited and its subsidiaries and the nominal value of the Company's shares which were issued under a group reorganisation in 1997.

In addition to accumulated profits, under the company law in Bermuda, the contributed surplus account of a company is also available for distribution to its shareholders. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

At 31st March, 2004 and 31st March, 2003, the Company had no reserves available for distribution to shareholders.

28. DISPOSAL OF SUBSIDIARIES

On 20th November, 2003, the Group disposed 100% equity interest of Global Mission Holdings Limited ("Global Mission"). Global Mission and its subsidiaries are principally engaged in operating restaurants. The net liabilities of Global Mission at the date of disposal were as follows:

	2004 HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	(81,710)
Inventories	(6,232)
Trade debtors	(1,860)
Other debtors	(1,189)
Deposits and prepayments	(16,481)
Pledged bank deposits	(1,025)
Bank balances and cash	(1,208)
Trade creditors	12,145
Other creditors and accrued charges	13,548
Other loan	72,400
Taxation payable	294
Obligations under finance leases	215
Bank overdraft	9,250
Bank borrowings	13,930
Minority interest	13,946
	<hr/>
	26,023
Gain on disposal	(26,023)
	<hr/>
Total consideration	–
	<hr/> <hr/>
Satisfied by:	
Cash	–
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Bank balances and cash disposed of	(1,208)
Bank overdraft disposed of	9,250
	<hr/>
	8,042
	<hr/> <hr/>

The subsidiaries disposed of during the year contributed to approximately HK\$154,321,000 (2003: HK\$228,015,000) to the Group's turnover and approximately loss of HK\$2,408,000 (2003: HK\$18,754,000) to the Group's profit (loss) from operations.

29. MINORITY INTERESTS

THE GROUP

In prior year, investments in certain subsidiaries were in the form of equity and loans from the Group and minority shareholders in accordance with respective percentages of equity shareholding in these subsidiaries. Investments in the form of loans were comparatively more significant than those in the form of equity, and the entire amounts were treated as quasi-capital. Under these circumstances, losses incurred by these subsidiaries were shared by the minority shareholders to the extent that the losses did not exceed the aggregate of their equity and loan investments.

30. DEFERRED TAXATION

At the balance sheet date, the Group has estimated unused tax losses of approximately HK\$17,647,000 (2003: HK\$176,200,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

31. PLEDGE OF ASSETS

At 31st March, 2003, the Group's leasehold land and buildings of approximately HK\$33,000,000 and bank deposits of approximately HK\$3,319,000 had been pledged to banks to secure general credit facilities granted to the Company and its subsidiaries.

32. CAPITAL COMMITMENTS

At 31st March, 2004, the Group had commitments for the acquisition of property, plant and equipment which were contracted for but not provided in the financial statements amounted to nil (2003: HK\$194,000).

At 31st March, 2004, the Company had no capital commitments.

33. OPERATING LEASES**The Group and the Company as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	708	25,623	-	492
In the second to fifth year inclusive	-	22,818	-	-
Over five years	-	760	-	-
	<u>708</u>	<u>49,201</u>	<u>-</u>	<u>492</u>

Operating lease payments represent rentals payable by the Group and the Company for certain of their office and restaurants properties. Leases are negotiated for an average term of one to two years. In prior year, leases are negotiated for an average term of three years and rentals are either fixed or determined based on 8% to 10% of turnover.

The Group as lessor

Property rental income earned during the year was approximately HK\$393,000 (2003: HK\$554,000). In prior year, the leasehold land and building held for rental purpose with a carrying value of HK\$8,000,000 was expected to generate rental yields of 8% on an ongoing basis and had committed a tenant for the next three years.

At the balance sheet date, the Group had contracted with a tenant for the following future minimum lease payments:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	–	660
In the second to fifth year inclusive	–	715
	<u>–</u>	<u>1,375</u>

34. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed at the SGM for the primary purpose of providing incentives to directors and eligible employees. The Scheme will expire on 6th October, 2012. Under the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, suppliers, customers, advisers or consultants and joint venture partners or business alliances of the Company or any of its subsidiaries to subscribe for shares in the Company.

At 31st March, 2004, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 12,799,998 (2003: 12,799,998), representing 2.29% (2003: 2.69%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholder or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company and will not less than the highest of the closing price of the shares on the Stock Exchange on the date of grant, the average closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares.

The following table discloses details of the Company's share option held by the Company's directors and the Group's consultants and movements in such holdings during the year.

	Date of grant	Exercisable period	Exercise price (Note)	Granted during the year ended 31st March, 2003 and outstanding at 31st March, 2003 and 31st March, 2004 (Note)
Directors	27th March, 2003	28th March, 2003 to 27th March, 2006	HK\$0.267	9,599,998
Consultants	27th March, 2003	28th March, 2003 to 27th March, 2006	HK\$0.267	3,200,000
				12,799,998

Note: The exercise price and number of outstanding share options have been adjusted for the Rights Issue on 15th January, 2004.

Total consideration received during last year from directors for taking up the options granted amounted to HK\$4.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

35. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

- (a) During the year, amounts totalling HK\$2,000,000 (2003: HK\$5,000,000) were advanced by Jade Dynasty Publications Limited ("JDP"), a company in which Mr. Wong has a beneficial interest. The loan is guaranteed by Mr. Wong, bears interest at the best lending rate plus 1.5% per annum and is repayable on 16th December, 2005. During the year, the principal amount of HK\$7,000,000 together with the interest of HK\$238,541 (2003: HK\$48,000) were repaid to JDP.
- (b) In prior year, amounts totalling HK\$74,349,000 were repaid to Forever Rich Profits Limited ("Forever Rich"), a former substantial shareholder of the Company. The loan was unsecured, bore interest at the best lending rate plus one percent per annum and had no fixed repayment term. During the prior year, an accrued interest of approximately HK\$1,082,000 was provided and paid on the advances from Forever Rich.

- (c) The Group also had the following transactions with companies in which a former deemed substantial shareholder had beneficial interests:

Contracting party	Nature of transaction	Terms	Amount for	Amount for
			the year ended 31st March, 2004 HK\$'000	the year ended 31st March, 2003 HK\$'000
China-V (HK) Ltd (notes 1 and 5)	Purchase of food products	N/A	-	201
A-Hing Limited (notes 2 and 5)	Operating lease rental paid	Commenced from 2nd June, 2000 at a monthly market rental of HK\$14,000 (inclusive of rates)	-	42
Emperor Investment (Management) Limited ("EIML") (notes 2 and 5)	Professional fee and advertising agency commission paid	N/A	-	130
Emperor Entertainment Limited (notes 3 and 5)	Promotion fee paid	N/A	-	80
Strong Time Investments Limited (notes 4 and 5)	Operating lease rental paid	Commenced from 6th April, 2003 at a monthly market rental of HK\$41,000 (exclusive of rates)	-	297

Notes:

- China-V (HK) Limited is indirect wholly-owned subsidiaries of Emperor Technology Venture Limited ("ETV"), a listed company of which Mr. Albert Yeung was deemed to be a substantial shareholder.
- A-Hing Limited and EIML are indirect wholly-owned subsidiaries of Emperor International, a listed company of which Mr. Albert Yeung was deemed to be a substantial shareholder.
- Emperor Entertainment Limited is an indirect wholly-owned subsidiary of Emperor Entertainment Group Limited, a company listed on GEM Board of the Stock Exchange of which Mr. Albert Yeung was deemed to be a substantial shareholder.
- Strong Time Investments Limited is indirectly controlled by the spouse of Mr. Albert Yeung.
- Mr. Albert Yeung ceased to be a deemed substantial shareholder of the Company upon the completion of the sale of shares from Forever Rich to Super Empire Investments Limited on 2nd July, 2002.

36. POST BALANCE SHEET EVENTS

On 26th February, 2004, the Company has entered into two conditional sale and purchase agreements with Mr. Wong and other independent investors ("Strategic Investors") respectively for the acquisition of total of 510,000 shares of Jade Dynasty Holdings Limited ("JDH"), representing 51.0% of the total issued share capital of JDH. JDH and its subsidiaries (the "JDH Group") are principally engaged in the business of publishing and distributing comic publications as well as the sales of derivative products related to its comic titles mainly in Hong Kong and Taiwan. The JDH Group also licenses the distribution rights of its comic titles in overseas markets such as Taiwan, South Korea, Southeast Asian Countries (Thailand, Indonesia, Malaysia) and Europe. Making use of the core strength in producing comic work, the JDH Group has already been implementing its plans to explore the comic book market and related animation movie market in the People's Republic of China.

Mr. Wong and the Strategic Investors respectively hold 633,967 shares and 299,805 shares of JDH, representing approximately 63.40% and 29.98% of the total issued share capital of JDH respectively.

Pursuant to the first agreement, Mr. Wong has agreed to sell, and the Company has agreed to purchase 210,195 shares of JDH, representing approximately 21.02% of JDH's total issued share capital, at a consideration of HK\$21,019,500 payable in cash.

Pursuant to the second agreement, the Strategic Investors have agreed to sell, and the Company has agreed to purchase 299,805 shares of JDH in aggregate, representing approximately 29.98% of JDH's total issued share capital, at a consideration of HK\$29,980,500, which shall be satisfied by the issue and allotment of the 83,442,718 consideration shares and payment of the cash sum of HK\$2,444,400.

The first agreement and the second agreement were completed on 22nd April, 2004.

On 7th June, 2004, the Group has placed 70,000,000 shares at HK\$0.31 per share to independent investors. The placement was completed on 21st June, 2004.

On 29th June, 2004, the Group entered into an Agreement, pursuant to which the Group has conditionally agreed to dispose of the Suishaya Japanese Restaurant operations for a cash consideration of HK\$5,000,000. The disposal was completed on 30th June, 2004.

3. PRO-FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For illustrative purpose only, the following is an unaudited pro-forma statement of the adjusted consolidated net tangible assets of the Enlarged Group prepared in accordance with Rule 4.29 of the Listing Rules as if the Acquisition had taken place on 31st March, 2004. The statement is prepared based on the audited consolidated financial statements of the Group as at 31st March, 2004, adjusted to reflect the effect of the Acquisition at Completion.

Audited consolidated net tangible assets of the Group as at 31st March, 2004 HK\$'000	Adjustment to the net tangible assets for 51% acquisition HK\$'000 (Note 1)	Less: Goodwill arising from Acquisition for 51% HK\$'000 (Note 2)	Enlarged Group of 51% in JDH HK\$'000	Adjustment to the net tangible assets for 49% acquisition HK\$'000 (Note 3)	Less: Goodwill arising from Acquisition for 49% HK\$'000 (Note 4)	Enlarged Group of 100% in JDH HK\$'000	
Net tangible assets/ (Negative net tangible assets)	<u>54,441</u>	<u>27,501</u>	<u>(41,425)</u>	<u>40,517</u>	<u>-</u>	<u>(85,593)</u>	<u>(45,076)</u>

Notes:

- (1) This represents the total share consideration from issue of 83,442,718 shares at HK\$0.37 each amounted to a total of approximately HK\$30,874,000 less the acquired intangible assets of approximately HK\$3,373,000 which was equal to approximately HK\$27,501,000. The total cash consideration was approximately HK\$23,464,000.
- (2) The goodwill represents the excess of the consideration amounted to approximately HK\$54,338,000 over 51% of the attributable net assets of JDH as at 31st March, 2004 amounting to approximately HK\$12,913,000.
- (3) There was no change in net tangible assets of the Group as no further shares will be issued in respect of the Acquisition. Instead, convertible notes of approximately HK\$65,333,000 will be issued and a cash consideration of approximately HK\$32,667,000 will be paid as consideration for the Acquisition.
- (4) The goodwill represents the excess of the consideration amounted to approximately HK\$98,000,000 over 49% of the attributable net assets of JDH as at 31st March, 2004 amounting to approximately HK\$12,407,000.
- (5) The unaudited consolidated net tangible asset value of HK\$0.097 per share (based on 559,663,466 shares in issue as at 31st March, 2004) of the Group before the Acquisition and the unaudited pro forma adjusted consolidated negative tangible asset value of HK\$0.063 per share of the Enlarged Group upon the Completion is calculated on the basis of 714,106,184 shares in issue as at the Latest Practicable Date as set out in the circular.

4. PRO-FORMA STATEMENT OF UNAUDITED COMBINED ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 31ST MARCH, 2004

The following is a summary of the unaudited pro-forma statement of assets and liabilities of the Enlarged Group which has been prepared in accordance with Rule 4.29 of the Listing Rules, for illustration purpose only, as if the acquisition of the 51% equity interests in JDH and the proposed acquisition of the 49% equity interests in JDH had been completed on 31st March, 2004 and based on the audited consolidated balance sheet of the Group as at 31st March, 2004 extracted from the annual report of the Company for the year ended 31st March, 2004 and the audited consolidated balance sheet of JDH as at 31st March, 2004 extracted from the Accountants' Report as set out in Appendix II of this circular and adjusted for the transaction resulting from the Acquisition.

	The Group HK\$'000	JDH HK\$'000	Pro-forma adjustments before the 49% acquisition HK\$'000	Enlarged Group of 51% equity interest in JDH HK\$'000	Pro-forma Adjustments for the 49% acquisition HK\$'000	Enlarged Group of 100% in JDH HK\$'000
Assets						
Property, plant and equipment	3,032	17,128		20,160		20,160
Intangible asset	200	3,373		3,573		3,573
Goodwill	0	0	41,425 (Note 1)	41,425	85,593 (Note 3)	127,018
Inventories	234	17,782		18,016		18,016
Trade debtors	1,328	18,166		19,494		19,494
Deposits, prepayments and other debtors	2,195	1,644	(5) (Note 2)	3,834		3,834
Amounts due from related companies	–	60		60		60
Tax recoverable	0	532		532		532
Bank balances and cash	57,379	2,250	(23,464) (Note 1)	36,165	(32,667) (Note 3)	3,498
Total assets	64,368	60,935		143,259		196,185
Liabilities						
Trade creditors	(1,340)	(9,718)		(11,058)		(11,058)
Other creditors and accrued charges	(3,108)	(9,500)		(12,608)		(12,608)
Amount due to a related company	(5)	0	5 (Note 2)	0		0
Taxation payable	(274)	(7)		(281)		(281)
Bank borrowings (secured)	0	(16,390)		(16,390)		(16,390)
Other loan	(5,000)	0		(5,000)		(5,000)
Convertible note	0	0		0	(65,333) (Note 3)	(65,333)
Total liabilities	(9,727)	(35,615)		(45,337)		(110,670)
Minority interests	0	0	(12,407) (Note 1)	(12,407)	12,407 (Note 3)	0
Net assets	54,641	25,320		85,515		85,515

- (Note 1) Based on the audited net assets of JDH amounted to HK\$25,320,000 as at 31st March, 2004, the acquisition of 51% interest in JDH for a total consideration of approximately HK\$54,338,000 comprised of a cash consideration of approximately HK\$23,464,000 (adjustment per above) and issue of shares of approximately HK\$30,874,000 as completed on 22nd April, 2004 as if completed on 31st March, 2004 resulted in a goodwill of approximately HK\$41,425,000 (adjustment per above) and a minority interest of approximately HK\$12,407,000 (adjustment per above).
- (Note 2) The adjustment represents the elimination of inter-company balances.
- (Note 3) Based on the audited net assets of JDH amounted to HK\$25,320,000 as at 31st March, 2004, the proposed acquisition of 49% interest in JDH for a total consideration of approximately HK\$98,000,000 comprised of a cash consideration of approximately HK\$32,667,000 (adjustment per above) and issue of convertible note of approximately HK\$65,333,000 (adjustment per above) as if completed on 31st March, 2004 will result in a goodwill of approximately HK\$85,593,000 (adjustment per above) and have cancelled the minority interest of approximately HK\$12,407,000 (adjustment per above).

5. COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

15th September, 2004

The Directors
Jade Dynasty Group Limited

Dear Sirs,

We report on the pro-forma statement of unaudited adjusted consolidated net tangible assets ("Pro-forma Adjusted NTA") and the pro-forma statement of unaudited combined assets and liabilities of the Enlarged Group as at 31st March, 2004 ("Pro-forma Assets and Liabilities Statement") as set out in sections 3 and 4 of Appendix I to the circular dated 15th September, 2004 (the "Circular") issued in connection with the major and connected transaction of Jade Dynasty Group Limited (the "Company"), which has been prepared to provide information about how the proposed transaction might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion on the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 'Reporting on pro forma financial information pursuant to the Listing Rules' issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the

evidence supporting the adjustments and discussing the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement with the Directors of the Company.

Because the above work does not constitute an audit or a review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement.

The Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement have been prepared in accordance with the basis set out in sections 3 and 4 of Appendix I to the Circular for illustrative purposes only and, because of its nature, it may not give an indicative financial position of the Company and its subsidiaries (the "Group") as at 31st March, 2004 or at any future date.

Opinion

In our opinion:

- (a) the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement have been properly compiled on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Pro-forma Adjusted NTA and the Pro-forma Assets and Liabilities Statement as disclosed pursuant to Rule 4.29 of the Listing Rules.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

6. STATEMENT OF INDEBTEDNESS**Borrowings and contingent liabilities**

As at the close of business on 31st July, 2004, being the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately HK\$17,532,000, comprising bank loans of approximately HK\$11,500,000 and mortgage loan of approximately HK\$6,032,000, which were secured by bank deposits, mortgages on leasehold land and buildings of the Group and a personal guarantee executed by Mr. Wong, being the shareholder of the Company.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Enlarged Group had any outstanding charges or bank overdrafts, loans and other similar indebtedness, finance lease, or any guarantees, capital commitments or other material contingent liabilities as at the close of business on 31st July, 2004.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 31st July, 2004.

The Directors are not aware of any material changes in the Enlarged Group's indebtedness and contingent liabilities since 31st July, 2004.

7. WORKING CAPITAL

The Directors are of the opinion that taking into account the existing cash and bank balances and the available unutilized banking facilities, the Enlarged Group has sufficient working capital for its present requirements and up to the period ending 30th September, 2005.

8. MATERIAL ADVERSE CHANGES

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31st March, 2004, the date to which the latest published audited annual financial statements of the Group were made up.

The following is the text of the accountants' report dated 15th September, 2004 from Deloitte Touche Tohmatsu, Certified Public Accountants, prepared for the purpose of incorporation in this circular, in relation to the JDH Group.

Deloitte.

德勤

15th September, 2004

The Directors
Jade Dynasty Group Limited
11th Floor, Safety Godown Industrial Building
56 Ka Yip Street
Chai Wan
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Jade Dynasty Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st December, 2001, the fifteen months ended 31st March, 2003 and the year ended 31st March, 2004 (the "Relevant Periods") for inclusion in the circular of Jade Dynasty Group Limited in connection with the major and connected transaction dated 15th September, 2004 (the "Circular").

The Company was incorporated in the British Virgin Islands on 19th December, 1996 as an international business company with limited liability. The Company is principally engaged in investment holding.

As at the date of this report, the particulars of the Company's subsidiaries, all of which are companies with limited liabilities, are as follows:

Name	Place and date of incorporation/ registration	Issued and fully paid share/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Jade Dynasty Publishing Company Limited	Hong Kong 4th December, 1987	Ordinary	–	100%	Motor vehicle hiring
Jade Dynasty Publications Limited	Hong Kong 12th January, 1993	Ordinary	100%	–	Publication and investment holding

Name	Place and date of incorporation/ registration	Issued and fully paid share/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			<i>Directly</i>	<i>Indirectly</i>	
Jade Dynasty Retail and Advertising Limited	Hong Kong 19th August, 1993	Ordinary	-	100%	Retail of comics and related merchandised products
JD Global IP Rights Limited	British Virgin Islands 12th February, 2001	Ordinary	100%	-	Holding of intellectual property rights
KINGcomics.com Limited	Hong Kong 2nd February, 2000	Ordinary	-	100%	Provision of online comic viewing services and sales of related merchandised goods
Rising Dragon Publications Limited	Hong Kong 21st April, 1992	Ordinary	-	100%	Sales of merchandised goods
Yuk Long Multimedia Limited	Samoa 5th November, 2001	Ordinary	100%	-	Development of animation and games
Yuk Long (Overseas) Limited	British Virgin Islands 18th December, 1998	Ordinary	-	100%	Provision of agency and promotion services
Yuk Long Publishing (International) Company Limited	Hong Kong 2nd February, 2000	Ordinary	100%	-	Publication
Yuk Long Production (China) Limited	Samoa 15th December, 2000	Ordinary	100%	-	Investment holding

Name	Place and date of incorporation/ registration	Issued and fully paid share/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Yuk Long Cultural Development (Shenzhen) Limited 玉郎文化發展 (深圳) 有限公司	People's Republic of China (the "PRC") 20th September, 2001	Registered capital	-	100%	Digital graphic design and software development

The audit of all the companies comprising the Group for the year ended 31st March, 2004 and for the fifteen months ended 31st March, 2003 was performed by RSM Nelson Wheeler, Certified Public Accountants. The auditors of all the companies comprising the Group for the year ended 31st December, 2001 are as follows:

Name of subsidiary	Financial period	Auditors
Jade Dynasty Publishing Company Limited	For the year ended 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
Jade Dynasty Publications Limited	For the year ended 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
Jade Dynasty Retail and Advertising Limited	For the year ended 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
JD Global IP Rights Limited	For the period from 12th February, 2001 (date of incorporation) to 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
KINGcomics.com Limited	For the year ended 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong

Name of subsidiary	Financial period	Auditors
Rising Dragon Publications Limited	For the year ended 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
Yuk Long Multimedia Limited	For the period from 5th November, 2001 (date of incorporation) to 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
Yuk Long (Overseas) Limited	For the year ended 31st December, 2001	Cheng & Cheng Limited Certified Public Accountants Registered in Hong Kong
Yuk Long Publishing (International) Company Limited	For the year ended 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
Yuk Long Production (China) Limited	For the period from 15th December, 2000 (date of incorporation) to 31st December, 2001	Moores Rowland Chartered Accountants Certified Public Accountants Registered in Hong Kong
Yuk Long Cultural Development (Shenzhen) Limited 玉郎文化發展(深圳)有限公司	For the year ended 31st December, 2001	Shenzhen Dahwa Tian Cheng Certified Public Accountants (深圳大華天誠會計師事務所) Registered in the PRC

We have examined the Group's audited consolidated financial statements ("Underlying Financial Statements") for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" as recommended by the Hong Kong Society of Accountants.

The financial information of the Group for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements, after making such adjustments as are appropriate.

The preparation of the Underlying Financial Statements are the responsibility of the directors of the Company who approved for its issue. They are also responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the financial information and to report our opinion to you.

In our opinion the financial information gives, for the purposes of this report, a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2001, 31st March, 2003 and 31st March, 2004 and of the results and cash flows of the Group for the year ended 31st December, 2001, the fifteen months ended 31st March, 2003 and the year ended 31st March, 2004.

(A) FINANCIAL INFORMATION**Consolidated income statements**

		Year ended 31.12.2001	Fifteen months ended 31.3.2003	Year ended 31.3.2004
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	159,324,262	166,209,733	105,770,542
Cost of sales		<u>(110,442,019)</u>	<u>(109,817,374)</u>	<u>(65,493,302)</u>
Gross profit		48,882,243	56,392,359	40,277,240
Release of negative goodwill		428,249	7,017,910	–
Other operating income	4	2,921,464	1,526,567	2,928,186
Distribution costs		(5,272,422)	(4,817,704)	(3,275,408)
Administrative expenses		(34,694,587)	(37,951,465)	(26,496,145)
Other operating expenses		<u>(2,147,783)</u>	<u>(6,492,593)</u>	<u>(232,494)</u>
Profit from operations	5	10,117,164	15,675,074	13,201,379
Finance costs	8	<u>(3,019,076)</u>	<u>(1,537,328)</u>	<u>(1,350,469)</u>
Profit before taxation		7,098,088	14,137,746	11,850,910
Taxation	9	<u>(782,000)</u>	<u>(317,524)</u>	<u>(728,000)</u>
Net profit for the year/period		<u><u>6,316,088</u></u>	<u><u>13,820,222</u></u>	<u><u>11,122,910</u></u>

Consolidated balance sheet

	Notes	As at		
		31.12.2001 HK\$	31.3.2003 HK\$	31.3.2004 HK\$
Non-current assets				
Property, plant and equipment	10	24,599,578	18,678,661	17,127,713
Intangible assets	12	512,194	333,041	3,373,049
Negative goodwill	13	(7,017,910)	–	–
		<u>18,093,862</u>	<u>19,011,702</u>	<u>20,500,762</u>
Current assets				
Inventories	14	3,033,861	5,029,974	17,782,118
Trade receivables	15	16,193,260	18,546,841	18,166,252
Deposits, prepayments and other receivables		5,664,440	1,637,567	1,644,042
Amounts due from related companies	16	76,911	5,119,782	60,197
Tax recoverable		75,434	1,737,706	531,708
Bank balances and cash		10,929,679	790,391	2,249,746
		<u>35,973,585</u>	<u>32,862,261</u>	<u>40,434,063</u>
Current liabilities				
Trade payables	17	15,577,736	11,674,369	9,717,892
Other payables and accrued charges		11,164,470	5,700,906	9,500,220
Amounts due to related companies	18	–	4,304	–
Bank borrowings (secured) – amount due within one year	19	3,187,960	12,839,719	11,981,527
Provision for taxation		528,375	7,226	7,226
		<u>30,458,541</u>	<u>30,226,524</u>	<u>31,206,865</u>
Net current assets		<u>5,515,044</u>	<u>2,635,737</u>	<u>9,227,198</u>
Total assets less current liabilities		<u>23,608,906</u>	<u>21,647,439</u>	<u>29,727,960</u>

		31.12.2001	As at 31.3.2003	31.3.2004
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Non-current liabilities				
Bank borrowings (secured)				
– amount due after one year	19	23,279,197	7,506,625	4,407,709
		<u>329,709</u>	<u>14,140,814</u>	<u>25,320,251</u>
NET ASSETS				
Capital and reserves				
Share capital	20	78,000	78,000	78,000
Reserves		251,709	14,062,814	25,242,251
		<u>329,709</u>	<u>14,140,814</u>	<u>25,320,251</u>
SHAREHOLDERS' FUNDS				

Balance sheet

		As at		
	<i>Notes</i>	31.12.2001	31.3.2003	31.3.2004
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Non-current assets				
Investments in subsidiaries	<i>11</i>	55,078,016	57,481	57,489
Current assets				
Account receivables		3,807,800	-	-
Amounts due from subsidiaries	<i>11</i>	16,875,010	20,733,604	32,495,831
Bank balances and cash		1,717	1,619	1,169
		<u>20,684,527</u>	<u>20,735,223</u>	<u>32,497,000</u>
Current liabilities				
Account payables and accrued charges		25,000	32,250	25,000
Amounts due to subsidiaries	<i>11</i>	20,760,791	25,602,918	27,450,048
		<u>20,785,791</u>	<u>25,635,168</u>	<u>27,475,048</u>
Net current (liabilities) assets		<u>(101,264)</u>	<u>(4,899,945)</u>	<u>5,021,952</u>
Total assets less current liabilities		<u>54,976,752</u>	<u>(4,842,464)</u>	<u>5,079,441</u>
Non-current liabilities				
Amounts due to subsidiaries	<i>11</i>	55,000,000	-	-
NET (LIABILITIES) ASSETS		<u>(23,248)</u>	<u>(4,842,464)</u>	<u>5,079,441</u>
Capital and reserves				
Share capital	<i>20</i>	78,000	78,000	78,000
Accumulated (losses) profits		<u>(101,248)</u>	<u>(4,920,464)</u>	<u>5,001,441</u>
(DEFICIENCY ON SHAREHOLDERS' FUNDS)		<u>(23,248)</u>	<u>(4,842,464)</u>	<u>5,079,441</u>
SHAREHOLDERS' FUNDS		<u>(23,248)</u>	<u>(4,842,464)</u>	<u>5,079,441</u>

Consolidated statement of changes in equity

	Share capital HK\$	Exchange reserve HK\$	Accumulated (losses) profits HK\$	Dividend reserve HK\$	Total HK\$
Balance at 1st January, 2001	78,000	-	(5,625,749)	-	(5,547,749)
Exchange difference on translation of overseas operations	-	(438,630)	-	-	(438,630)
Net profit for the year	-	-	6,316,088	-	6,316,088
Balance at 31st December, 2001	78,000	(438,630)	690,339	-	329,709
Exchange difference on translation of overseas operations	-	(9,117)	-	-	(9,117)
Net profit for the period	-	-	13,820,222	-	13,820,222
Balance at 31st March, 2003	78,000	(447,747)	14,510,561	-	14,140,814
Exchange difference on translation of overseas operations	-	56,527	-	-	56,527
Net profit for the year	-	-	11,122,910	-	11,122,910
Proposed dividend	-	-	(4,000,000)	4,000,000	-
Balance at 31st March, 2004	<u>78,000</u>	<u>(391,220)</u>	<u>21,633,471</u>	<u>4,000,000</u>	<u>25,320,251</u>

Consolidated cash flow statement

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
OPERATING ACTIVITIES			
Profit before taxation	7,098,088	14,137,746	11,850,910
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	5,083,905	5,533,514	2,614,942
Loss on disposal/written off of property, plant and equipment	2,646	77,690	147,961
Release of negative goodwill	(428,249)	(7,017,910)	–
Amortisation of intangible assets	591,728	179,153	359,992
Interest income	(1,039,408)	(54,414)	(255,891)
Interest expenses	3,019,076	1,537,328	1,350,469
Impairment losses (reversal) on leasehold land and building	1,757,442	1,699,000	(1,094,000)
Allowances for doubtful debts (written back)	–	108,969	(32,971)
Write-down of inventories	–	–	232,494
Operating cashflows before movements in working capital	16,085,228	16,201,076	15,173,906
Decrease (increase) in inventories	742,393	(1,996,113)	(12,984,638)
(Increase) decrease in trade receivables	(3,949,819)	(2,462,550)	413,560
Decrease (increase) in deposits, prepayments and other receivables	47,778	4,045,572	(25,174)
Decrease (increase) in amounts due from related companies	18,910,097	(5,042,871)	5,059,585
Decrease in trade payables	(3,997,273)	(3,903,367)	(1,956,477)
(Decrease) increase in other payables and accrued charges	(6,907,703)	(5,463,564)	3,799,314
(Decrease) increase in amounts due to related companies	(25,899)	4,304	(4,304)
Cash generated from operations	20,904,802	1,382,487	9,475,772
Income taxes (paid) refunded	(690,075)	(2,500,945)	477,998
Net cash generated from (used in) operating activities	20,214,727	(1,118,458)	9,953,770

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
INVESTING ACTIVITIES			
Interest received	1,039,408	35,715	274,590
Purchase of property, plant and equipment	(1,644,059)	(1,605,402)	(135,890)
Proceeds on disposal of property, plant and equipment	–	218,050	17,914
Purchase of intangible assets	(440,001)	–	(3,400,000)
	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) generated from investing activities	(1,044,652)	(1,351,637)	(3,243,386)
	<u> </u>	<u> </u>	<u> </u>
FINANCING ACTIVITIES			
New bank loans raised	–	5,000,000	1,000,000
Repayment of bank loans	(2,371,587)	(14,722,142)	(1,355,779)
Interest paid	(3,019,076)	(1,537,328)	(1,350,469)
Repayment of other loans	(950,000)	–	–
Repayments of obligations under finance leases	(2,295,625)	–	–
	<u> </u>	<u> </u>	<u> </u>
Net cash used in financing activities	(8,636,288)	(11,259,470)	(1,706,248)
	<u> </u>	<u> </u>	<u> </u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,533,787	(13,729,565)	5,004,136
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	47,513	(11,052)	56,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	348,379	10,929,679	(2,810,938)
	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>10,929,679</u>	<u>(2,810,938)</u>	<u>2,249,746</u>
	<u> </u>	<u> </u>	<u> </u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	10,929,679	790,391	2,249,746
Bank overdrafts	–	(3,601,329)	–
	<u> </u>	<u> </u>	<u> </u>
	<u>10,929,679</u>	<u>(2,810,938)</u>	<u>2,249,746</u>
	<u> </u>	<u> </u>	<u> </u>

(B) NOTES TO THE FINANCIAL INFORMATION**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial information have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial information incorporated the financial information of the Company and its subsidiaries made up to the balance sheet date each year/period.

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

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expense arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

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

Revenue recognition

Revenue from the sales of books, merchandised goods and comic scripts is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Royalty income is recognised on an accrual basis in accordance with the terms of the relevant agreement.

Membership and online comics viewing income are recognised on a basis that reflects the timing, nature and value of the benefits provided.

Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

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

Advertising income is recognised when the services are rendered.

Manuscript income is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Property, plant and equipment

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

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

Leasehold land and buildings	Over the lease terms
Leasehold improvements	20% – 33 ¹ / ₃ %
Machinery	20% – 25%
Motor vehicles	25%
Furniture and fixtures	20%
Office equipment	20% – 25%

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

Intangible assets

Intangible assets, which represent the copyrights and trademarks, are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

Impairment

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currencies

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

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

Taxation

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

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

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

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

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

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

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

2. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group during the year/period, and is analysed as follows:

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Sales of books	127,580,577	143,021,746	96,653,156
Sales of merchandised goods	21,936,183	12,211,017	2,503,640
Sales of comic scripts	1,292,543	806,482	306,740
Royalty income	7,690,114	8,719,827	5,185,681
Membership and online comics viewing income	824,845	1,450,661	1,121,325
	<u>159,324,262</u>	<u>166,209,733</u>	<u>105,770,542</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is organised into two operating divisions, publication and multi-media development. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Publication	–	publication of comics and related business
Multi-media development	–	development of animation and games

Segment information about these businesses is presented below:

Income statement for the year ended 31st December, 2001

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
Turnover	<u>159,324,262</u>	–	<u>159,324,262</u>
Segment results	<u>10,168,362</u>	<u>(14,190)</u>	10,154,172
Unallocated corporate expenses			<u>(37,008)</u>
Profit from operations			10,117,164
Finance costs			<u>(3,019,076)</u>
Profit before taxation			7,098,088
Taxation charge			<u>(782,000)</u>
Net profit for the year			<u>6,316,088</u>

Balance sheet at 31st December, 2001

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
ASSETS			
Segment assets	53,906,095	85,918	53,992,013
Unallocated corporate assets			75,434
			<u>54,067,447</u>
LIABILITIES			
Segment liabilities	26,738,206	4,000	26,742,206
Unallocated corporate liabilities			26,995,532
			<u>53,737,738</u>

Other information for the year ended 31st December, 2001

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
Additions of property, plant and equipment	1,644,059	–	1,644,059
Depreciation and amortisation of property, plant and equipment	5,083,905	–	5,083,905
Amortisation of intangible assets	591,728	–	591,728
Release of negative goodwill	428,249	–	428,249
Impairment loss on leasehold land and building	<u>1,757,442</u>	<u>–</u>	<u>1,757,442</u>

Income statement for the fifteen months ended 31st March, 2003

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
Turnover	<u>166,209,733</u>	<u>–</u>	<u>166,209,733</u>
Segment results	<u>20,780,929</u>	<u>(296,764)</u>	20,484,165
Unallocated corporate expenses			(4,809,091)
Profit from operations			15,675,074
Finance costs			(1,537,328)
Profit before taxation			14,137,746
Taxation credit			(317,524)
Net profit for the period			<u>13,820,222</u>

Balance sheet at 31st March, 2003

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
ASSETS			
Segment assets	46,900,052	3,236,205	50,136,257
Unallocated corporate assets			1,737,706
			<u>51,873,963</u>
LIABILITIES			
Segment liabilities	17,374,579	5,000	17,379,579
Unallocated corporate liabilities			20,353,570
			<u>37,733,149</u>

Other information for the fifteen months ended 31st March, 2003

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
Additions of property, plant and equipment	1,605,402	–	1,605,402
Depreciation and amortisation of property, plant and equipment	5,526,402	7,112	5,533,514
Amortisation of intangible assets	179,153	–	179,153
Release of negative goodwill	7,017,910	–	7,017,910
Impairment loss on land and building	<u>1,699,000</u>	<u>–</u>	<u>1,699,000</u>

Income statement for the year ended 31st March, 2004

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
Turnover	<u>105,637,208</u>	<u>133,334</u>	<u>105,770,542</u>
Segment results	<u>13,477,088</u>	<u>(197,614)</u>	13,279,474
Unallocated corporate expenses			(78,095)
Profit from operations			13,201,379
Finance costs			(1,350,469)
Profit before taxation			11,850,910
Taxation charge			(728,000)
Net profit for the year			<u>11,122,910</u>

Balance sheet at 31st March, 2004

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
ASSETS			
Segment assets	44,173,451	16,229,666	60,403,117
Unallocated corporate assets			531,708
			<u>60,934,825</u>
LIABILITIES			
Segment liabilities	15,346,966	3,871,146	19,218,112
Unallocated corporate liabilities			16,396,462
			<u>35,614,574</u>

Other information for the year ended 31st March, 2004

	Publication HK\$	Multi-media development HK\$	Consolidated HK\$
Additions of property, plant and equipment	135,890	–	135,890
Depreciation and amortisation of property, plant and equipment	2,604,274	10,668	2,614,942
Purchase of intangible assets	3,400,000	–	3,400,000
Amortisation of intangible assets	<u>359,992</u>	<u>–</u>	<u>359,992</u>

Geographical segments

The Group's operations are located in Hong Kong, Taiwan and overseas.

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

	Year ended 31.12.2001 HK\$	Turnover Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Hong Kong	124,242,815	137,150,174	90,154,884
Taiwan	26,098,790	19,533,250	10,123,237
Others	8,982,657	9,526,309	5,492,421
	<u>159,324,262</u>	<u>166,209,733</u>	<u>105,770,542</u>

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

	Carrying amount of segment assets			Additions to property, plant and equipment		
	As at			As at		
	31.12.2001	31.3.2003	31.3.2004	31.12.2001	31.3.2003	31.3.2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Hong Kong	43,473,474	41,960,360	55,080,658	1,644,059	1,605,402	135,890
Taiwan	8,285,845	6,058,462	3,999,986	-	-	-
Others	2,232,694	2,117,435	1,322,473	-	-	-
	<u>53,992,013</u>	<u>50,136,257</u>	<u>60,403,117</u>	<u>1,644,059</u>	<u>1,605,402</u>	<u>135,890</u>

4. OTHER OPERATING INCOME

	Year ended	Fifteen months	Year ended
	31.12.2001	ended	31.3.2004
	HK\$	31.3.2003	HK\$
Advertising income	45,765	368,173	535,950
Comic production income	-	-	275,899
Exchange gain	-	101,976	-
Interest income	1,039,408	54,414	255,891
Manuscript income	-	-	526,487
Reversal of impairment loss on leasehold land and buildings	-	-	1,094,000
Rental income	232,964	231,514	-
Sundry income	1,603,327	770,490	206,988
Allowance for doubtful debts written back	-	-	32,971
	<u>2,921,464</u>	<u>1,526,567</u>	<u>2,928,186</u>

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Amortisation of intangible assets (included in other operating expenses)	591,728	179,153	359,992
Auditors' remuneration	371,546	300,000	257,452
Depreciation and amortisation on			
– Owned assets	4,301,542	5,533,514	2,614,942
– Assets held under finance leases	782,363	–	–
Loss on disposal/written off of property, plant and equipment	2,646	77,690	147,961
Operating lease rentals in respect of			
– Leasehold land and buildings	1,987,593	1,149,247	768,676
– Office equipment	420,000	378,000	210,387
Staff costs including directors' remuneration (<i>note 6</i>)			
– Salaries and other allowances	55,884,565	68,708,541	44,152,494
– Retirement benefits scheme contribution	1,356,089	1,629,521	1,151,015
Impairment loss on leasehold land and buildings (included in other operating expenses)	<u>1,757,442</u>	<u>1,699,000</u>	<u>–</u>

6. DIRECTORS' EMOLUMENTS

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Directors' emoluments:			
Fees	128,000	48,000	48,000
Other emoluments	13,480,537	15,025,464	5,131,300
Retirement benefits scheme contributions	<u>48,000</u>	<u>66,000</u>	<u>59,370</u>
	<u>13,656,537</u>	<u>15,139,464</u>	<u>5,238,670</u>

The directors' fees disclosed above were paid to a non-executive director who resigned on 31st December, 2003.

The emoluments of the directors were within the following bands:

	Year ended 31.12.2001 <i>HK\$</i>	Fifteen months ended 31.3.2003 <i>HK\$</i>	Year ended 31.3.2004 <i>HK\$</i>
Nil – HK\$1,000,000	2	2	3
HK\$1,000,001 – HK\$1,500,000	1	2	2
HK\$1,500,001 – HK\$2,000,000	1	–	1
HK\$2,000,001 – HK\$2,500,000	–	1	–
HK\$10,000,001 – HK\$10,500,000	1	1	–
	<u>5</u>	<u>6</u>	<u>6</u>

No directors of the Company waived any emoluments during the Relevant Periods.

7. EMPLOYEE'S EMOLUMENTS

During the Relevant Periods, of the five individuals with the highest emoluments in the Group, three were directors of the Company whose emoluments are included in the disclosures in note 6 above. The emoluments of the remaining two individuals were as follows:

	Year ended 31.12.2001 <i>HK\$</i>	Fifteen months ended 31.3.2003 <i>HK\$</i>	Year ended 31.3.2004 <i>HK\$</i>
Salaries and other benefits	4,455,495	5,998,825	8,060,000
Retirement benefits scheme contributions	13,000	30,000	24,000
	<u>4,468,495</u>	<u>6,028,825</u>	<u>8,084,000</u>

The emoluments were within the following bands:

	Year ended 31.12.2001 <i>HK\$</i>	Fifteen months ended 31.3.2003 <i>HK\$</i>	Year ended 31.3.2004 <i>HK\$</i>
Nil – HK\$1,000,000	1	–	–
HK\$1,000,001 – HK\$1,500,000	–	1	–
HK\$2,500,001 – HK\$3,000,000	–	–	1
HK\$3,500,001 – HK\$4,000,000	1	–	–
HK\$4,500,001 – HK\$5,000,000	–	1	–
HK\$5,000,001 – HK\$5,500,000	–	–	1
	<u>2</u>	<u>2</u>	<u>2</u>

8. FINANCE COSTS

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Interest on:			
Bank loans and overdrafts	2,783,458	1,537,328	1,350,469
Finance leases	235,618	–	–
	<u>3,019,076</u>	<u>1,537,328</u>	<u>1,350,469</u>

9. TAXATION

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Hong Kong Profits Tax			
– current year/period	(782,000)	(330,772)	(728,000)
– overprovision in prior year	–	13,248	–
	<u>(782,000)</u>	<u>(317,524)</u>	<u>(728,000)</u>

Hong Kong Profits Tax is provided at 17.5% for the year ended 31st March, 2004, 16% for the fifteen months from 1st January, 2002 to 31st March, 2003 and for the year ended 31st December, 2001 based on the assessable profits for the respective periods.

The charge for the year/period can be reconciled to the profit before taxation per the income statement as follows:

	Year ended 31.12.2001 HK\$	Fifteen months ended 31.3.2003 HK\$	Year ended 31.3.2004 HK\$
Profit before taxation	7,098,088	14,137,746	11,850,910
Tax at the Hong Kong Profits Tax rate	1,135,694	2,262,039	2,073,909
Tax effect of expenses not deductible for tax purpose	851,740	1,197,952	105,940
Tax effect of income not taxable for tax purpose	(1,018,863)	(4,103,407)	(888,967)
Overprovision in respect of prior year	–	(13,248)	–
Utilisation of tax losses previously not recognised	(1,577,980)	(572,108)	(1,086,944)
Deferred tax asset in respect of tax loss and other temporary difference not recognised	1,391,005	1,546,296	524,062
Others	404	–	–
	<u>782,000</u>	<u>317,524</u>	<u>728,000</u>
Tax charge and effective tax rate for the year/period			

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$	Leasehold improve- ments HK\$	Machinery HK\$	Motor vehicles HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
THE GROUP							
COST							
At 1st January, 2001	21,999,996	4,188,148	422	1,900,984	711,439	5,653,386	34,454,375
Additions	-	172,346	-	4,143	267,975	1,199,595	1,644,059
Disposals/write off	-	-	-	-	-	(5,100)	(5,100)
Exchange adjustments	-	-	-	-	(20,099)	-	(20,099)
At 31st December, 2001	<u>21,999,996</u>	<u>4,360,494</u>	<u>422</u>	<u>1,905,127</u>	<u>959,315</u>	<u>6,847,881</u>	<u>36,073,235</u>
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1st January, 2001	3,999,996	187,504	422	116,666	33,111	298,533	4,636,232
Provided for the year	353,500	1,947,771	-	622,877	200,965	1,958,792	5,083,905
Disposals/write off	-	-	-	-	-	(2,454)	(2,454)
Impairment losses	1,030,000	-	-	-	-	727,442	1,757,442
Exchange adjustments	-	-	-	-	(1,468)	-	(1,468)
At 31st December, 2001	<u>5,383,496</u>	<u>2,135,275</u>	<u>422</u>	<u>739,543</u>	<u>232,608</u>	<u>2,982,313</u>	<u>11,473,657</u>
NET BOOK VALUE							
At 31st December, 2001	<u>16,616,500</u>	<u>2,225,219</u>	<u>-</u>	<u>1,165,584</u>	<u>726,707</u>	<u>3,865,568</u>	<u>24,599,578</u>
COST							
At 1st January, 2002	21,999,996	4,360,494	422	1,905,127	959,315	6,847,881	36,073,235
Additions	-	249,759	23,367	621,657	94,792	615,827	1,605,402
Disposals/write off	-	(29,500)	-	(447,617)	(356,236)	(162,642)	(995,995)
Exchange adjustments	-	-	-	-	2,484	2	2,486
At 31st March, 2003	<u>21,999,996</u>	<u>4,580,753</u>	<u>23,789</u>	<u>2,079,167</u>	<u>700,355</u>	<u>7,301,068</u>	<u>36,685,128</u>
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1st January, 2002	5,383,496	2,135,275	422	739,543	232,608	2,982,313	11,473,657
Provided for the period	417,500	2,068,785	3,797	657,071	245,789	2,140,572	5,533,514
Disposals/write off	-	(29,500)	-	(410,409)	(119,437)	(140,909)	(700,255)
Impairment losses	1,699,000	-	-	-	-	-	1,699,000
Exchange adjustments	-	-	-	-	551	-	551
At 31st March, 2003	<u>7,499,996</u>	<u>4,174,560</u>	<u>4,219</u>	<u>986,205</u>	<u>359,511</u>	<u>4,981,976</u>	<u>18,006,467</u>
NET BOOK VALUE							
At 31st March, 2003	<u>14,500,000</u>	<u>406,193</u>	<u>19,570</u>	<u>1,092,962</u>	<u>340,844</u>	<u>2,319,092</u>	<u>18,678,661</u>

	Leasehold land and buildings HK\$	Leasehold improve- ments HK\$	Machinery HK\$	Motor vehicles HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
THE GROUP							
COST							
At 1st April, 2003	21,999,996	4,580,753	23,789	2,079,167	700,355	7,301,068	36,685,128
Additions	-	-	-	-	56,419	79,471	135,890
Disposals/write off	-	(174,772)	(23,362)	-	-	(1,133,609)	(1,331,743)
Exchange adjustment	-	(2)	(5)	-	(5)	(13)	(25)
	<u>21,999,996</u>	<u>4,405,979</u>	<u>422</u>	<u>2,079,167</u>	<u>756,769</u>	<u>6,246,917</u>	<u>35,489,250</u>
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1st April, 2003	7,499,996	4,174,560	4,219	986,205	359,511	4,981,976	18,006,467
Provided for the period	294,000	154,178	779	533,701	130,843	1,501,441	2,614,942
Disposals/write off	-	(71,312)	(4,575)	-	-	(1,089,981)	(1,165,868)
Reversal of impairment losses	(1,094,000)	-	-	-	-	-	(1,094,000)
Exchange adjustment	-	(1)	(1)	1	(1)	(2)	(4)
	<u>6,699,996</u>	<u>4,257,425</u>	<u>422</u>	<u>1,519,907</u>	<u>490,353</u>	<u>5,393,434</u>	<u>18,361,537</u>
NET BOOK VALUE							
At 31st March, 2004	<u>15,300,000</u>	<u>148,554</u>	<u>-</u>	<u>559,260</u>	<u>266,416</u>	<u>853,483</u>	<u>17,127,713</u>

The Group's leasehold land and buildings are situated in Hong Kong and held under long leases.

During the Relevant Periods, the directors conducted reviews of the Group's leasehold land and buildings with reference to professional valuations. Based upon these reviews, impairment losses of HK\$1,757,442 and HK\$1,699,000 respectively have been recognised for the year ended 31st December, 2001 and the fifteen months ended 31st March, 2003. In addition, impairment losses of HK\$1,094,000 have been reversed for the year ended 31st March, 2004.

11. INVESTMENTS IN SUBSIDIARIES

	31.12.2001 HK\$	As at 31.3.2003 HK\$	31.3.2004 HK\$
Unlisted shares, at cost	<u>55,078,016</u>	<u>57,481</u>	<u>57,489</u>

Amounts due from subsidiaries are unsecured, interest-free and had no fixed repayment terms.

Amounts due to subsidiaries are unsecured and interest-free. As at 31st December, 2001, the directors considered the amount of HK\$55,000,000 was not repayable within one year.

12. INTANGIBLE ASSETS

	Copyrights HK\$	THE GROUP Trademarks HK\$	Total HK\$
COST			
At 1st January, 2001	786,143	–	786,143
Additions	140,000	300,001	440,001
	<u>926,143</u>	<u>300,001</u>	<u>1,226,144</u>
At 31st December, 2001	926,143	300,001	1,226,144
AMORTISATION			
At 1st January, 2001	122,222	–	122,222
Charge for the year	581,727	10,001	591,728
	<u>703,949</u>	<u>10,001</u>	<u>713,950</u>
At 31st December, 2001	703,949	10,001	713,950
NET BOOK VALUE			
At 31st December, 2001	<u>222,194</u>	<u>290,000</u>	<u>512,194</u>
COST			
At 1st January, 2002 and at 31st March, 2003	926,143	300,001	1,226,144
	<u>926,143</u>	<u>300,001</u>	<u>1,226,144</u>
AMORTISATION			
At 1st January, 2002	703,949	10,001	713,950
Charge for the period	104,153	75,000	179,153
	<u>808,102</u>	<u>85,001</u>	<u>893,103</u>
At 31st March, 2003	808,102	85,001	893,103
NET BOOK VALUE			
At 31st March, 2003	<u>118,041</u>	<u>215,000</u>	<u>333,041</u>
COST			
At 1st April, 2003	926,143	300,001	1,226,144
Additions	3,400,000	–	3,400,000
	<u>4,326,143</u>	<u>300,001</u>	<u>4,626,144</u>
At 31st March, 2004	4,326,143	300,001	4,626,144
AMORTISATION			
At 1st April, 2003	808,102	85,001	893,103
Charge for the year	299,992	60,000	359,992
	<u>1,108,094</u>	<u>145,001</u>	<u>1,253,095</u>
At 31st March, 2004	1,108,094	145,001	1,253,095
NET BOOK VALUE			
At 31st March, 2004	<u>3,218,049</u>	<u>155,000</u>	<u>3,373,049</u>

Intangible assets are amortised on a straight-line basis over a range of 2 to 5 years.

13. NEGATIVE GOODWILL

	THE GROUP HK\$
GROSS AMOUNT	
At 1st January, 2001 and at 31st December, 2001	<u>8,201,816</u>
RELEASED TO INCOME	
At 1st January, 2001	755,657
Released in the year	<u>428,249</u>
At 31st December, 2001	<u>1,183,906</u>
CARRYING AMOUNT	
At 31st December, 2001	<u><u>7,017,910</u></u>
GROSS AMOUNT	
At 1st January, 2002 and at 31st March, 2003	<u>8,201,816</u>
RELEASED TO INCOME	
At 1st January, 2002	1,183,906
Released in the period	<u>7,017,910</u>
At 31st March, 2003	<u>8,201,816</u>
CARRYING AMOUNT	
At 31st March, 2003	<u><u>-</u></u>

The negative goodwill arose on the Group's acquisition of Jade Dynasty Publications Limited, Yuk Long Creation Limited, KINGComics.com Group Limited and Yuk Long Publishing (International) Limited in October 2000. At the date of acquisition, the negative goodwill was identified as relating to anticipated losses for the future three years.

14. INVENTORIES

	THE GROUP		
	As at		
	31.12.2001	31.3.2003	31.3.2004
	HK\$	HK\$	HK\$
Raw materials	176,878	150,068	102,128
Merchandised goods	1,555,705	373,161	124,852
Work-in-progress	<u>1,301,278</u>	<u>4,506,745</u>	<u>17,555,138</u>
	<u><u>3,033,861</u></u>	<u><u>5,029,974</u></u>	<u><u>17,782,118</u></u>

Included above are merchandised goods of HK\$94,852, HK\$258,727 and HK\$464,988, which are carried at net realisable value as at 31st December, 2001, 31st March, 2003 and 31st March, 2004 respectively.

Included in work-in-progress was staff cost of HK\$5,336,754, HK\$2,453,930 and nil for the period at 31st March, 2004, 31st March, 2003 and 31st December, 2001 respectively.

15. TRADE RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables at the reporting dates:

	31.12.2001	As at 31.3.2003	31.3.2004
	HK\$	HK\$	HK\$
0 – 60 days	14,900,080	11,905,409	13,739,337
61 – 90 days	515,140	2,527,342	1,363,980
> 90 days	778,040	4,114,090	3,062,935
	<u>16,193,260</u>	<u>18,546,841</u>	<u>18,166,252</u>

16. AMOUNTS DUE FROM RELATED COMPANIES

Details of the amounts due from related companies are as follows:

Name of related company	Interested director	Terms	Balance at beginning of the year/period HK\$	Balance at end of the year/period HK\$	Maximum amount outstanding during the year/period HK\$
As at 31st December, 2001					
Topazman Holdings Limited	Mr. Wong Chun Loong	10% p.a., unsecured and no fixed repayment terms	18,987,008	–	19,394,419
Jade Dynasty International Group Limited	Mr. Wong Chun Loong	Interest-free, unsecured and no fixed repayment terms	–	76,911	76,911
			<u>18,987,008</u>	<u>76,911</u>	
As at 31st March, 2003					
Jade Dynasty International Group Limited	Mr. Wong Chun Loong (<i>Note</i>)	Interest-free, unsecured and no fixed repayment terms	76,911	–	76,911
Jade Dynasty Group Limited (formerly known as Jade Dynasty Food Culture Group Limited)	Messrs. Tong Kai Lap and Wong Chun Loong (<i>Note</i>)	1.5% per annum above Hong Kong dollar prime rate, personal guarantee of a shareholder and repayable on 16 December 2003	–	5,000,000	5,000,000
		Interest-free, unsecured and no fixed repayment terms	–	118,699	118,699
Wide Creation Limited	Messrs. Tong Kai Lap and Wong Chun Loong (<i>Note</i>)	Interest-free, unsecured and no fixed repayment terms	–	1,083	1,083
			<u>76,911</u>	<u>5,119,782</u>	

Name of related company	Interested director	Terms	Balance at	Balance at	Maximum
			beginning of the year/period HK\$	end of the year/period HK\$	amount outstanding during the year/period HK\$
As at 31st March, 2004					
Jade Dynasty Group Limited (formerly known as Jade Dynasty Food Culture Group Limited)	Mr. Tong Kai Lap	1.5% per annum above Hong Kong dollar prime rate, personal guarantee of a shareholder and repayable on 16 December 2003	5,000,000	-	7,000,000
		Interest-free, unsecured and no fixed repayment terms	118,699	-	142,795
Wide Creation Limited	Mr. Tong Kai Lap	Interest-free, unsecured and no fixed repayment terms	1,083	60,197	188,192
			5,119,782	60,197	

Note: Mr. Wong Chun Loong resigned as a director of the Company on 12th December, 2002.

17. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting dates:

	31.12.2001 HK\$	As at 31.3.2003 HK\$	31.3.2004 HK\$
0 – 60 days	5,958,133	4,000,381	4,561,755
61 – 90 days	2,708,973	2,360,585	1,701,954
> 90 days	6,910,630	5,313,403	3,454,183
	15,577,736	11,674,369	9,717,892

18. AMOUNTS DUE TO RELATED COMPANIES

The Group

Related companies are companies in which a director of the Company has beneficial interests. The amounts are interest-free, unsecured and have no fixed repayment terms.

19. BANK BORROWINGS (SECURED)

	THE GROUP		
	31.12.2001	As at 31.3.2003	31.3.2004
	HK\$	HK\$	HK\$
Bank loans	26,467,157	16,745,015	16,389,236
Bank overdrafts	–	3,601,329	–
	<u>26,467,157</u>	<u>20,346,344</u>	<u>16,389,236</u>
The maturity profile of the above loans and overdrafts is as follows:			
On demand or within one year	3,187,960	12,839,719	11,981,527
More than one year, but not exceeding two years	3,349,188	4,522,260	4,407,709
More than two years, but not exceeding five years	11,571,484	2,984,365	–
More than five years	8,358,585	–	–
	<u>26,467,157</u>	<u>20,346,344</u>	<u>16,389,236</u>
Less: Amount due within one year shown under current liabilities	<u>(3,187,960)</u>	<u>(12,839,719)</u>	<u>(11,981,527)</u>
Amount due after one year	<u>23,279,197</u>	<u>7,506,625</u>	<u>4,407,709</u>

Bank loan as at 31st March, 2004 amounting to HK\$4,407,709 bears interest at market rates and is repayable by instalments until February 2006.

Bank loan as at 31st March, 2004 amounting to HK\$5,981,527 bears interest at market rates and is repayable in by instalments until February 2005.

Bank loan as at 31st March, 2004 amounting to HK\$6,000,000 bears interest at market rates and is revolving in nature.

20. SHARE CAPITAL

	Number of shares	HK\$
<i>Authorised:</i>		
At 31st December, 2001, 31st March, 2003 and 31st March, 2004	<u>5,000,000</u>	<u>390,000</u>
<i>Issued and fully paid:</i>		
At 31st December, 2001, 31st March, 2003 and 31st March, 2004	<u>1,000,000</u>	<u>78,000</u>

21. PLEDGE OF ASSETS

At the balance sheet dates of the Relevant Periods, certain of the Group's assets have been pledged to banks to secure general credit facilities granted to the Company and its subsidiaries. Details of the carrying values of assets pledged are as follows:

	THE GROUP		
	As at	As at	As at
	31.12.2001	31.3.2003	31.3.2004
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Leasehold land and buildings	<u>16,616,500</u>	<u>14,500,000</u>	<u>15,300,000</u>

22. LEASE COMMITMENTS

The Group as lessee

At the balance sheet dates of the Relevant Periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings which fall due as follows:

	THE GROUP		
	As at	As at	As at
	31.12.2001	31.3.2003	31.3.2004
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within one year	1,157,934	117,332	196,249
In the second to fifth years inclusive	<u>193,960</u>	<u>–</u>	<u>–</u>
	<u>1,351,894</u>	<u>117,332</u>	<u>196,249</u>

Operating lease payments represent rentals payable by the Group for its staff quarters and office premises in Shenzhen, the PRC. Leases are mainly negotiated for an average term of one to two years.

The Group as lessor

Certain of Group's leasehold land and buildings were held for rental purposes. They are expected to generate rental yields of 21.3% on an ongoing basis. The Group has committed tenants for one year.

At the balance sheet dates of the Relevant Periods, the Group had contracted with tenants for the following future minimum lease payments:

	31.12.2001	31.3.2003	31.3.2004
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within one year	<u>225,768</u>	<u>–</u>	<u>–</u>

23. RETIREMENT BENEFIT SCHEME

With effect from 1st December, 2000, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributed 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

24. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) not recognised by the Group and movements thereon during the year/period:

	Accelerated tax depreciation <i>HK\$</i>	Tax losses <i>HK\$</i>	Total <i>HK\$</i>
At 1st January, 2001	(761,736)	3,639,391	2,877,655
Credit (charge) to income statement for the year	<u>355,102</u>	<u>(542,077)</u>	<u>(186,975)</u>
At 31st December, 2001	(406,634)	3,097,314	2,690,680
Credit to income statement for the period	<u>867,094</u>	<u>107,094</u>	<u>974,188</u>
At 31st March, 2003	460,460	3,204,408	3,664,868
(Charge) credit to income statement for the year	180,482	(1,086,944)	(906,462)
Effect of change in tax rate	<u>43,168</u>	<u>300,412</u>	<u>343,580</u>
At 31st March, 2004	<u><u>684,110</u></u>	<u><u>2,417,876</u></u>	<u><u>3,101,986</u></u>

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

25. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group entered into the following transactions with its related parties:

		Year ended 31.12.2001	Fifteen months ended 31.3.2003	Year ended 31.3.2004
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Interest income from related companies	<i>(a)</i>	865,221	33,747	252,342
Comic production income from related companies	<i>(b)</i>	–	–	260,899
Consultancy fee paid to a related company	<i>(c)</i>	900,000	193,750	–
Rental expenses paid to a related company	<i>(d)</i>	350,000	–	
Legal and professional fees paid to a related company	<i>(e)</i>	905,452	–	
Payment of comics script fee and bonus to a director/ shareholder	<i>(f)</i>	<u>4,533,550</u>	<u>6,196,678</u>	<u>5,156,000</u>

- (a) During the year ended 31st December, 2001, the Group received interest income from Topazman Holdings Limited (“Topazman”), in which the director, Mr. Wong Chun Loong has beneficial interest. The interest was related to advances to Topazman and was charged at 10% per annum.

During the fifteen months ended 31st March, 2003 and the year ended 31st March, 2004, the Group received interest income from Jade Dynasty Food Culture Group Limited, in which the directors, Messrs. Tong Kai Lap and Wong Chun Loong have beneficial interests. The interest was charged at the Group’s interest cost on bank borrowings in relation to the advances.

- (b) During the year ended 31st March, 2004, the Group received manuscript fee from subsidiaries of Jade Dynasty Food Culture Group Limited. Manuscript fee is charged at fixed costs per page.
- (c) During the year ended 31st December, 2001 and the fifteen months ended 31st March, 2003, the Group paid consultancy fee to Wealthfair Consultants Limited, in which the director, Mr. Tong Kai Lap has beneficial interest. The fee was agreed between both parties.
- (d) During the year ended 31st December, 2001, the Group rented a property from Best Luck (HK) Limited, in which a close family member of the directors, Messrs. Wong Chun Loong and Wong Chun Keung has beneficial interest. The monthly rental was determined with reference to the market rent.
- (e) During the year ended 31st December, 2001, the Group paid legal and professional fees to Chiu & Partners, in which a non-executive director, Mr. Chiu Pak Yue is a partner. The fee was charged at the time costs spent on services rendered.
- (f) During the year ended 31st December, 2001, the fifteen months ended 31st March, 2003 and the year ended 31st March, 2004 the Group paid comics script fee and bonus to Mr. Wong Chun Loong, who resigned as a director in 2002 and remains a shareholder of the Group at present, in the capacity as chief comic creative writer in pursuance with relevant service agreements signed with the Group.

- (g) On 1st November, 2001, the Group entered into a confirmatory agreement with the director, Mr. Wong Chun Loong whereby Mr. Wong Chun Loong confirming the grant to a subsidiary of the Group an exclusive sub-license to use the trade marks 玉郎 and Yuk Long at a consideration of HK\$300,001. The trade marks was originally granted to Mr. Wong Chun Loong by a third party upon an agreement signed on 17th November, 2000.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 31st March, 2004.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL AND OPTIONS

(a) Share capital

The authorised and issued capital of the Company as at the Latest Practicable Date were as follows:

		<i>HK\$</i>
<i>Authorised</i>		
<u>250,000,000,000</u>	Shares	<u>500,000,000.00</u>
<i>Issued and credited as fully paid</i>		
<u>714,106,184</u>	Shares	<u>1,428,212.37</u>

(b) Share Options

Details of the Share Options outstanding as the Latest Practicable Date were as follows:

Date of grant	Exercise price per Share	Option period	Number of Shares issuable upon exercise of the Share Options
27th March, 2003	HK\$0.267	28th March, 2003 to 27th March, 2006	12,799,998
1st April, 2004	HK\$0.363	3rd April, 2004 to 2nd April, 2007	22,900,000

3. DISCLOSURE OF INTERESTS BY DIRECTORS

- (a) As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in issued Shares

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities
Dr. Chan Kong Sang, Jackie	The Company	beneficiary of trust	36,599,333 Shares (<i>Note 1</i>)
	JDH	beneficiary of trust	11,454 ordinary shares (<i>Note 2</i>)
Mr. Cheung Ting Kau, Vincent	The Company	beneficiary of trust	3,833,333 Shares (<i>Note 3</i>)
Mr. Tong Kai Lap	Super Empire	beneficial owner	5 ordinary shares (<i>Note 4</i>)
	JDH	founder of discretionary trust	10,404 ordinary shares
	JDH	interest of spouse	9,568 ordinary shares
Mr. Wan Siu Lun	JDH	beneficial owner	9,827 ordinary shares
Mr. Wong Chun Keung	JDH	beneficial owner	11,832 ordinary shares

Notes:

- (1) These Shares are beneficially owned by Pariain Enterprises Corp., a company controlled by the discretionary trust of Dr. Chan Kong Sang, Jackie.
- (2) These shares are beneficially owned by Noble River Limited, a company controlled by the discretionary trust of Dr. Chan Kong Sang, Jackie.
- (3) These Shares are beneficially owned by Giant Profit Investments Inc., a company controlled by the discretionary trust of Mr. Cheung Ting Kau, Vincent.
- (4) Mr. Tong Kai Lap is the registered shareholder of 5 shares of, which represent 5% interest in, Super Empire, a substantial shareholder and an associated corporation of the Company.

Interests in underlying Shares of equity derivatives (as defined in the SFO)

As at the Latest Practicable Date, the Directors had the following options to subscribe for Shares of the Company under the Company's Share Option Scheme:

Name of Director	Maximum number and class of Shares/other securities over which options are exercisable	Date of grant	Option expiry date	Exercise price per Share (<i>Note</i>)
Chan Kong Sang, Jackie	3,000,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
Chan Chee Kheong	1,200,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
So Che Hung, Solon	900,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
Cheung Ting Kau, Vincent	900,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
Tong Kai Lap	2,666,666 Shares	27th March, 2003	27th March, 2006	HK\$0.267
	900,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
Wong Chun Keung	2,666,666 Shares	27th March, 2003	27th March, 2006	HK\$0.267
	800,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
Wan Siu Lun	2,666,666 Shares	27th March, 2003	27th March, 2006	HK\$0.267
	800,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363
Ko Chi Keung	1,600,000 Shares	27th March, 2003	27th March, 2006	HK\$0.267
	500,000 Shares	2nd April, 2004	2nd April, 2007	HK\$0.363

Note: The exercise price per Share is subject to adjustment in accordance with the terms of the Company's Share Option Scheme.

Interests in Unissued Shares and Debentures in the Company

As at the Latest Practicable Date, the Directors listed below had interest in unissued Shares and unissued debentures of the Company as follows (Note 1):

Name of Director	Principal amount of debentures interested	Number of unissued Shares interested	Nature of interest
Chan Kong Sang Jackie (Note 2)	HK\$1,527,200	3,054,400	Beneficiary of trust
Tong Kai Lap (Note 3)	HK\$1,387,200	2,774,400	Founder of discretionary trust
Tong Kai Lap (Note 4)	HK\$1,275,733	2,551,466	Interest of spouse
Wan Siu Lun	HK\$1,310,267	2,620,534	Beneficial owner
Wong Chun Keung	HK\$1,577,600	3,155,200	Beneficial owner

Notes:

- (1) The Convertible Notes to be issued at Completion pursuant to the Agreement constitute unissued debentures of the Company. The Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Notes are unissued Shares in which the Directors had interest. The respective numbers of unissued Shares disclosed above are arrived at based on the initial Conversion Price of HK\$0.50 per Share and assuming full conversion of the Convertible Notes.
 - (2) Interest in the unissued debenture and the unissued Shares is beneficially owned by Noble River Limited, a company controlled by the discretionary trust of Dr. Chan Kong Sang Jackie. Accordingly Dr. Chan is deemed to be interested in these securities.
 - (3) Interest in the unissued debenture and the unissued Shares shown in this row is beneficially owned by Rapid Alert International Limited, a company controlled by a discretionary trust of which Mr. Tong Kai Lap is the founder. Accordingly Mr. Tong is deemed to be interested in these securities.
 - (4) Interest in the unissued debenture and the unissued Shares shown in this row is beneficially owned by Ms. Wong Miu Ling, Patricia, the spouse of Mr. Tong Kai Lap. Accordingly Mr. Tong is deemed to be interested in these securities.
- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or

deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

- (a) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, persons (other than a Director or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Interests in issued Shares of the Company

Name of shareholder	Number of Shares	Nature of interest	Approximate % of the total number of issued Shares
Super Empire	330,935,100	Beneficial owner	46.34%
Mr. Wong Chun Loong (Note 1)	330,935,100	Interest of controlled corporation	46.34%
Kingston Finance Limited (Note 2)	330,935,100	Security interest	46.34%
Ma Siu Fong (Note 3)	333,935,100	Interest of controlled corporation	46.76%
Chu Yuet Wah (Note 3)	333,935,100	Interest of controlled corporation	46.76%
Kei Kin Hung	55,500,000	Beneficial owner	7.77%

Notes:

- (1) Super Empire is a company controlled by Mr. Wong Chun Loong. Accordingly Mr. Wong is deemed to be interested in the 330,935,100 Shares held by Super Empire.
- (2) Super Empire has pledged to Kingston Finance Limited ("KFL") the 330,935,100 Shares which it owns in the Company. Such shares are pledged to KFL for the purpose of securing credit facilities granted to Super Empire. Accordingly KFL has a security interest in these Shares.
- (3) KFL and Kingston Securities Limited are companies controlled by Ms. Ma Siu Fong and Mrs. Chu Yuet Wah. Accordingly Ms. Ma and Mrs. Chu are deemed to be interested in the 330,935,100 Shares pledged by Super Empire to KFL and 3,000,000 Shares options granted to Kingston Securities Limited on 2nd April, 2004.

Interests in Unissued Shares in the Company

As at the Latest Practicable Date, the following substantially shareholder (Note 1) holds the following interests in the unissued Shares in the Company:

Name of shareholder	Number of Unissued Shares	Nature of Interest	Approximate % of the total number of issued Shares (Note 2)
Mr. Wong Chun Loong	113,005,866	Beneficial interest	15.82%
Mr. Wong Chun Loong	459,200 (Note 3)	Interest of spouse	0.06%

Notes:

- (1) At Completion of the Agreement, the Company will issue to Mr. Wong Chun Loong and his associate certain Convertible Notes. The unissued Shares disclosed above are the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to these Convertible Notes. The number of unissued Shares disclosed is arrived at based on the initial Conversion Price of HK\$0.50 per Share and assuming full conversion of the Convertible Notes.
- (2) The denominator used is 714,106,184 Shares, being the total number of Shares in issue as at the Latest Practicable Date.
- (3) Interest in these 459,200 unissued Shares is held by Ms. Ngai Man Kuen, Annie, the spouse of Mr. Wong Chun Loong. Accordingly Mr. Wong is deemed to be interested in these unissued Shares.

Interests in shares of other members of the Group

Name of shareholder	Name of member of the Group	Number of Shares	Approximate % of the total number of issued shares
Mr. Wong Chun Loong and his associates	JDH	428,484	42.85%

- (b) Save as disclosed, the Directors and chief executive of the Company are not aware of any other person who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such Shares.
- (c) Mr. Tong Kai Lap and Mr. Wong Chun Keung, being Directors of the Company, are also directors of Super Empire, being a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV the SFO.

5. LITIGATION

Neither the Company nor any of its subsidiaries are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contract with any member of the Group, save for contracts expiring or terminable by the employer within one year without payment of compensation, other than statutory compensation.

There are no service contracts entered into, commenced, or amended in the past six months.

7. MATERIAL CONTRACTS

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

- (a) a joint venture agreement dated 14th February, 2003 pursuant to which Mass Success Group Limited, a former subsidiary of the Company, will participate in 51% equity interest and Quality Associates Limited, a company which is partly held by a connected person of the Company, will participate in 49% equity interest in Kindfield Limited, a company incorporated in Hong Kong and previously engaged in the operation of a Chinese restaurant;
- (b) a joint venture agreement dated 14th February, 2003 pursuant to which Mass Success Group Limited, a former subsidiary of the Company, will participate in 51% equity interest and Gaston Overseas Corporation, an independent third party, will participate in 49% equity interest in Royal Grace Limited, a company incorporated in Hong Kong with limited liability;
- (c) a joint venture agreement dated 14th February, 2003 pursuant to which Mass Success Group Limited, a former subsidiary of the Company, will participate in 51% equity interest and Wealth Ample Limited, a company which is partly held by a connected person of the Company, will participate in 49% equity interest in State Wing Limited, a company incorporated in Hong Kong with limited liability;
- (d) the subscription agreement dated 24th October, 2003 entered into between the Company and Mr. Kei Kin Hung, who was not a connected person of the Company prior to the subscription, pursuant to which the Company issued, and Mr. Kei Kin Hung subscribed for 61,500,000 new Shares;

- (e) the conditional sale and purchase agreement dated 20th November, 2003 relating to the disposal of G.Sushi operations made between Precise Acme Limited (“PAL”), a wholly owned subsidiary of the Company, and Speedy Champion Investments Limited;
- (f) the deed of loan assignment dated 21st November, 2003 entered into between PAL, Speedy Champion Investments Limited and Global Mission Holdings Limited concerning the Sale Loan;
- (g) the underwriting agreement dated 4th December, 2003 entered into between the Company, Super Empire, Oriental Patron and Kingston Securities Limited concerning the rights issue of 139,540,866 rights shares of the Company at HK\$0.33 each;
- (h) the sale and purchase agreement dated 26th February, 2004 entered into between the Company as purchaser and Mr. Wong Chun Loong as vendor for sale and purchase of shares of JDH;
- (i) the sale and purchase agreement dated 26th February, 2004 entered into between the Company as purchaser and the Strategic Investors as vendors for sale and purchase of shares in JDH;
- (j) the subscription agreement dated 7th June, 2004 entered into between Super Empire and the Company concerning the placing and top up subscription of 70,000,000 Shares;
- (k) the conditional sale and purchase agreement dated 29th June, 2004 relating to the disposal of Suishaya Japanese Restaurant operations made between PAL and Byford Group Limited; and
- (l) the Agreement, the principal terms of which are set out in the letter from the Board in this circular.

8. MISCELLANEOUS

- (a) Save for the shares in JDH proposed to be acquired by the Company under the Acquisition, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any of their respective subsidiaries, respectively, since 31st March, 2004, the date to which the latest published audited financial statements of the Group were made up.
- (b) Save for the Agreement, there is no contract or agreement entered into by any member of the Group, subsisting at the date hereof in which any of the Directors is materially interested and which is significant in relation to the business of the Group as a whole.

- (c) The branch share registrar and transfer office of the Company in Hong Kong is located at the office of Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The company secretary and qualified accountant of the Company is Mr. Ko Chi Keung, FCCA, FHKSA.
- (e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal office of the Company at 11th Floor, Safety Godown Industrial Building, 56 Ka Yip Street, Chai Wan, Hong Kong during normal business hours on any weekday, except public holidays, from the date hereof up to and including 30th September, 2004.

- the Company's memorandum of association and bye-laws;
- the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- the annual report of the Group for the two financial years ended 31st March, 2003 and 2004;
- the accountants' report on JDH Group, the text of which is set out in Appendix II to this circular;
- the unaudited pro forma financial information of the Group, the text of which is set out in Appendix I to this circular;
- the circular of the Company dated 22nd March, 2004 in relation to the Previous Acquisition;
- the written consent of CSC and Deloitte Touche Tohmatsu as referred to under the section headed "Experts" in this Appendix;
- a written statement signed by the reporting accountants setting out the adjustments made by them in arriving at the figures shown in their report;
- the letter from the Independent Board Committee, the text of which is set out on page 19 of this circular;
- the letter from CSC to the Independent Board Committee dated 15th September, 2004, the text of which is set out on pages 20 to 35 of this circular; and

- the written consent referred to in the paragraph headed "Experts" in this Appendix.

10. EXPERTS

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

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
CSC	a deemed licensed corporation to carry out type 6 regulated activities under the SFO

As at the Latest Practicable Date, neither of Deloitte Touche Tohmatsu and CSC were beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which have been, since 31st March, 2004 being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Deloitte Touche Tohmatsu and CSC have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their letters and/or reports and/or references to their respective names and logos (as the case may be), in the form and context in which they respectively appear.

NOTICE OF SGM



JADE DYNASTY GROUP LIMITED

玉皇朝集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 970)

(formerly known as Jade Dynasty Food Culture Group Limited)

NOTICE IS HEREBY GIVEN that a special general meeting of Jade Dynasty Group Limited (the “Company”) will be held on Thursday, 30th September, 2004 at 3:00 p.m. at 11th Floor, Safety Godown Industrial Building, 56 Ka Yip Street, Chai Wan, Hong Kong (the “SGM”) for the purpose of considering and, if thought fit, passing the following resolution, with or without modifications, as ordinary resolution:–

ORDINARY RESOLUTION

1. “**THAT**

- (a) the conditional sale and purchase agreement dated 17th August, 2004 (“**Agreement**”) entered into between the Company as purchaser and the persons named therein as vendors (“**Vendors**”) for the sale and purchase of an aggregate of 490,000 shares of Jade Dynasty Holdings Limited (a copy of the Agreement has been produced to this meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) be and it is hereby generally and unconditionally approved in all respects and that all the transactions contemplated therein be and they are hereby approved;
- (b) the creation and issue by the Company to the Vendors or their respective nominees of the 2% convertible notes in the aggregate principal amount of HK\$65,333,333 (“**Convertible Notes**”), convertible into new ordinary shares of par value HK\$0.002 each in the capital of the Company (“**Conversion Shares**”) at the initial conversion price of HK\$0.5 per Conversion Share as stipulated under the terms and conditions (“**Note Conditions**”) attaching to the Convertible Notes as set out in Exhibit A to the Agreement (a copy of Exhibit A extracted from the Agreement has been produced to this meeting marked “B” and initialled by the chairman of this meeting for the purpose of identification), on and subject to the terms and conditions of the Agreement be and is hereby generally and unconditionally approved in all respects; and

* *for identification purposes only*

NOTICE OF SGM

- (c) the allotment and issue by the Company to the holder(s) for the time being of the Convertible Notes or their nominees such number of Conversion Shares as may be required to be allotted and issued upon the exercise of the conversion right in full attaching to the Convertible Notes, on and subject to the Note Conditions, be and is hereby generally and unconditionally approved in all respects and that the Conversion Shares shall, when allotted and issued, rank *pari passu* in all respects with all other ordinary shares of the Company in issue at the date of such allotment and issue;

and further that the directors of the Company (“**Directors**”) be and they are hereby generally and unconditionally authorised to issue the Convertible Notes subject to the terms and conditions of the Agreement, and in respect of the Conversion Shares, on and subject to the Note Conditions, to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Agreement and the Convertible Notes and to agree to such variation, amendment, supplement or waiver of matters relating thereto (including any variation, amendment or waiver of the Note Conditions) as are, in the opinion of the Directors, in the interest of the Company.”

By order of the Board
Ko Chi Keung
Director

Hong Kong, 15th September, 2004

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal office:
11th Floor
Safety Godown Industrial Building
56 Ka Yip Street
Chai Wan
Hong Kong

NOTICE OF SGM

Notes:

1. Any member entitled to attend and vote at the SGM convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed herewith. Completion and return of the form of proxy will not preclude a member from attending the meeting or any adjournment thereof and voting in person if he so wishes.
3. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. In the case of joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.