
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Offer, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in the Company, you should at once hand this Offer Document and the accompanying Form of Acceptance to the purchaser or to the bank, a licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

The Stock Exchange does not take any responsibility for the contents of this Offer Document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offer Document.

COMPOSITE OFFER DOCUMENT



YU MING INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

Megaland Development Limited

(Incorporated in the British Virgin Islands with limited liability)

**Acquisition of Shares
by Megaland Development Limited**

**Mandatory Conditional General Offer by
Yu Ming Investment Management Limited
on behalf of Megaland Development Limited
to acquire all the Shares in the
issued share capital of Yu Ming Investments Limited
other than those already owned by Megaland Development Limited
and parties acting in concert with it**

Financial Adviser to Megaland Development Limited



YU MING INVESTMENT MANAGEMENT LIMITED

Independent financial adviser to the Independent Board Committee

CHATERON

CORPORATE FINANCE LIMITED

華夏融資有限公司

A letter from the Independent Board Committee to the Independent Shareholders in relation to the Offer is set out on pages 14 to 15 of this Offer Document. A letter from Chateron containing its advice to the Independent Board Committee in relation to the Offer is set out on pages 16 to 42 of this Offer Document. The procedures for acceptance of the Offer are set out on pages 43 to 47 of this Offer Document and in the accompanying Form of Acceptance.

Form of Acceptances should be completed and returned as soon as possible, by hand or by post, to the share registrar of the Company, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event not later than by 4:00 p.m. on Tuesday, 23rd December, 2003, or such later time and, or date as the Offeror may decide and which is in compliance with the Code.

2nd December, 2003

CONTENTS

	<i>Page</i>
Definitions	1
Expected Timetable	4
Letter from the Board	
1. Introduction	5
2. The Offer	5
3. Information on the Company	6
4. Changes in Shareholding of the Company	7
5. Directors' Position	8
6. Additional Information	8
Letter from Yu Ming	
1. Introduction	9
2. The Offer	
The Offer Price	10
Condition of the Offer	10
The Offeror and Its Interests in Shares	10
Total Consideration	11
Terms of the Offer	11
Payment	11
Stamp Duty	12
Compulsory Acquisition	12
3. Offeror's Intention in Relation to the Company	12
4. Continuation of Listing of the Company	12
5. General	13
Letter from the Independent Board Committee	14
Letter from Chateron	16
Appendix I – Acceptance Procedures and Further Terms of the Offer	43
Appendix II – Financial Information on the Group	48
Appendix III – Statutory and General Information	87

DEFINITIONS

In this Offer Document and in the Appendices hereto, unless the context otherwise requires, the following expressions have the following meanings:

“Accepting Shareholders”	Independent Shareholders who accept the Offer
“Acquisition”	the acquisition of the Sale Shares by the Offeror
“Annual Report”	the annual report of the Company which contains the latest published audited financial statements of the Group as at 31st December, 2002
“Board”	the board of Directors of the Company
“business day”	any day on which the Stock Exchange is open for the transaction of business
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Chateron”	Chateron Corporate Finance Limited, a deemed licensed corporation under the transitional arrangements to carry out Type 6 regulated activity (advising on corporate finance) for the purposes of the SFO, being the independent financial adviser to the Independent Board Committee in relation to the Offer
“Closing Date”	23rd December, 2003 (or such other time and/or date as the Offeror may announce)
“Code”	the Hong Kong Code on Takeovers and Mergers
“Company”	Yu Ming Investments Limited, a company incorporated in Hong Kong with limited liability and listed on the Stock Exchange
“Directors”	the directors of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer which accompanies this Offer Document
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region

DEFINITIONS

“Independent Board Committee”	the independent board committee established to make recommendation to the Independent Shareholders in relation to the Offer
“Independent Shareholders /Offer Shareholders”	Shareholders other than the Offeror and parties acting in concert with it
“Interim Report”	the interim report of the Company which contains the latest published unaudited financial statements of the Group as at 30th June, 2003 published on 3rd September, 2003
“Latest Practicable Date”	29th November, 2003, being the latest practicable date prior to the printing of this Offer Document for the purpose of ascertaining certain information contained in this Offer Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Matignon”	FCPR Matignon Investissements, a Shareholder of the Company holding a notifiable interest as defined in the SFO prior to the completion of the Acquisition
“Offer”	the mandatory conditional cash offer by the Offeror to acquire all the Shares other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with it
“Offer Announcement”	the joint announcement made by the Offeror and the Company on 4th November, 2003 in respect of the Offer
“Offer Document”	this composite offer document containing <i>inter alia</i> , the letter of advice from Chateron together with the Form of Acceptance issued by the Offeror and the Company to the Shareholders pursuant to the Code
“Offer Period”	The period commencing on 4th November, 2003 and ending at 4:00 p.m. on the Closing Date
“Offer Price”	HK\$0.30 per Share
“Offeror”	Megaland Development Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Oyster Services Limited, the trustee of Oyster Unit Trust, the ultimate beneficiaries of which are, inter alia, children of Mr. Tony Fung Wing Cheung, the chairman and an executive Director of the Company

DEFINITIONS

“Registrar”	Secretaries Limited
“Sale Shares”	a total of 97,821,000 Shares, representing 5.78% of the total issued Shares, sold by Matignon and Comir SA to the Offeror on 5th November and 18th November, 2003 respectively
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Hung Kai”	Sun Hung Kai & Co., Limited a company listed on the Stock Exchange and a substantial Shareholder interested in approximately 21.53% issued Shares in the Company
“Unconditional Date”	the date on which the Offer becomes or is declared unconditional
“Yu Ming”	Yu Ming Investment Management Limited, a deemed licensed corporation under the SFO and the financial adviser to the Offeror

EXPECTED TIMETABLE

Opening date of the Offer	Tuesday, 2nd December, 2003
Latest time for receiving acceptances	4:00 p.m., Tuesday, 23rd December, 2003
First closing date of the Offer (<i>Note 1</i>)	Tuesday, 23rd December, 2003
Publications of the result of the Offer (<i>Note 2</i>)	7:00 p.m., Tuesday, 23rd December, 2003 and 7:00 p.m., Tuesday, 6th January, 2004
Latest time for posting of remittances for the amount due in respect of valid acceptances of the Offer received on or before 6th January, 2004 (assuming that the Offer becomes, or is declared unconditional on 23rd December, 2003) (<i>Note 3</i>)	Friday, 16th January, 2004
First date an Accepting Shareholder could withdraw his acceptance if the Offer has not become unconditional (<i>Note 4</i>)	Wednesday, 14th January, 2004
Latest time by which the Offer could become unconditional as to acceptances (<i>Note 5</i>)	4:00 p.m. Monday, 2nd February, 2004

Notes:

1. Pursuant to the Code, the Offer must be open for acceptance for at least 21 days following the date on which this Offer Document is posted.
2. If the Offer becomes or is declared unconditional at or before 4:00 p.m. on 23rd December, 2003, the Offer will remain open for at least 14 days thereafter. The Offeror will in these circumstances publish an announcement through the Stock Exchange by 7:00 p.m. on the Closing Date stating whether the Offer has expired or has become or been declared unconditional which will be republished in newspapers on the following business day. Such announcement will state the total number of Shares and rights over Shares, if any, (i) for which acceptances of the Offer have been received; (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and (iii) acquired or agreed to be acquired during the Offer Period by the Offeror or persons acting in concert with it.
3. Pursuant to the Code, payment is required to be made within 10 days of the later of the date on which the Offer becomes, or is declared, unconditional and the date on which valid acceptances in respect of the Shares are received under the Offer.
4. Pursuant to the Code, an Accepting Shareholder shall be entitled to withdraw his acceptance of the Offer after 21 days from 23rd December, 2003, if the Offer has not by then become unconditional. This entitlement to withdraw shall be exercisable until such time as the Offer becomes or is declared unconditional as to acceptances.
5. Pursuant to the Code, the Offeror has the rights to extend the Offer until the 60th day after the day on which this Offer Document is posted. If the Offer does not become unconditional on 23rd December, 2003, the Offeror has the right to extend the Offer until 31st January, 2004. Since 31st January, 2004 is not a business day, the Offer can be extended to the next business day, which is Monday, 2nd February, 2004. If it does extend the Offer, the Offeror will publish a teletext announcement through the Stock Exchange by 7:00 p.m. on 23rd December, 2003 stating the Offer has been extended to 4:00 p.m. on such extended date, and such announcement will be republished in newspapers on the next business day. Such announcement will state the total number of Shares and rights over Shares, if any, (i) for which acceptances of the Offer have been received; (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and (iii) acquired or agreed to be acquired during the Offer Period by the Offeror or persons acting in concert with it.

LETTER FROM THE BOARD



YU MING INVESTMENTS LIMITED
禹銘投資有限公司

2nd December, 2003

Registered Office:
Suite 51, 5th Floor,
New Henry House,
10 Ice House Street,
Central, Hong Kong

*To the Shareholders of
Yu Ming Investments Limited,*

Dear Sirs or Mesdames,

**Mandatory Conditional General Offer by
Yu Ming Investment Management Limited
on behalf of Megaland Development Limited
to acquire all the Shares in the
issued share capital of Yu Ming Investments Limited
other than those already owned by Megaland Development Limited
and parties acting in concert with it**

1. INTRODUCTION

The Offeror and the Company jointly announced on 4th November, 2003 that the Offeror had agreed on 3rd October, 2003 to acquire from Matignon and Comir SA for cash their entire interests in 87,821,000 Shares and 10,000,000 Shares, respectively, at HK\$0.30 per Share.

As a result of the completion of the acquisitions of the Sale Shares from Comir SA and Matignon on 5th November and 18th November, 2003, respectively, the shareholding by the Offeror and parties acting in concert with it in the Company increased from 34.97% to 40.75%, triggering an obligation of the Offeror to make the Offer under the Code to acquire all the Shares other than those owned by the Offeror or agreed to be acquired by the Offeror and parties acting in concert with it. The terms and conditions of the Offer are set out in this Offer Document and the accompanying Form of Acceptance.

2. THE OFFER

The Offer will be made in compliance with the Code and on the basis of HK\$0.30 in cash per Share. As at the Latest Practicable Date, there are no outstanding rights to subscribe for Shares. Therefore the Offer will not be extended to holders of rights to subscribe for Shares.

LETTER FROM THE BOARD

3. INFORMATION ON THE COMPANY

The principal activity of the Group is investment in listed and unlisted shares, debt securities, properties and infrastructure projects. The Group's major investments are its interests in Argyle Centre shopping mall in Mongkok, a portfolio of equity and debt securities, and a minority interest in the Hong Kong International Exhibition Centre, together with The Government of the Hong Kong Special Administrative Region, the Airport Authority and Dragages et Travaux Publics (HK) Limited.

Argyle Centre is a fully leased shopping mall located in a prime spot in Mongkok, the busiest shopping district in Kowloon. Stable rental income benefited from low interest rates through a leveraged structure in an associated company.

Since 31st December, 2002, the Group has disposed of some of its equity securities while at the same time acquired some debt securities. The Group has stayed liquid in order to respond swiftly to attractive investment opportunities. The investment in debt securities yielded satisfactory return to the Group.

In August 2003, the Group participated in a minority investment in the Hong Kong International Exhibition Centre, together with The Government of the Hong Kong Special Administrative Region, the Airport Authority and Dragages et Travaux Publics (HK) Limited. Such a joint venture company has an aggregate beneficial interest of 13.5% in the HKIEC project and the total investment by the joint venture company in the HKIEC project amounted to approximately HK\$353 million. HKIEC is a project under development to become a major exhibition centre in Hong Kong upon completion. The Directors are optimistic about the long term prospects of the investment in Hong Kong International Exhibition Centre. However, the project is infrastructure related and will only be able to generate income after its opening in early 2006.

The Group is actively seeking investment opportunities. To conserve cash for further investment opportunities, the Board has resolved not to declare an interim dividend for the first six months of 2003.

LETTER FROM THE BOARD

4. CHANGES IN SHAREHOLDING OF THE COMPANY

The following table shows the changes in the shareholding of the Company as a result of completion of the Acquisition.

Name	Number of Shares held immediately before the Acquisition	% of issued Shares	Number of Shares held immediately after the Acquisition	% of issued Shares
The Offeror	581,525,258	34.39	679,346,258	40.17
Parties Acting in concert with the Offeror				
<i>Mr. Tony Fung Wing Cheung</i>	3,328,000	0.20	3,328,000	0.20
<i>Mr. Peter Fung Yiu Fai</i>	6,500,000	0.38	6,500,000	0.38
<i>Mr. Warren Lee (Note 3)</i>	–	–	–	–
Sub-total of the Offeror and all parties acting in concert with it	591,353,258	34.97	689,174,258	40.75
Sun Hung Kai	364,151,800	21.53	364,151,800	21.53
Continental Mariner Investment Company Limited	119,380,000	7.06	119,380,000	7.06
Matignon	87,821,000	5.19	–	–
Directors (other than Mr. Tony Fung Wing Cheung, Mr. Peter Fung Yiu Fai and Mr. Lee Seng Hui) (Notes 1 and 2)	2,850,000	0.17	2,850,000	0.17
Public	525,615,931	31.08	515,615,931	30.49
Total	<u>1,691,171,989</u>	<u>100.00</u>	<u>1,691,171,989</u>	<u>100.00</u>

Notes:

- Mr. Peter Lee Yip Wah, Mr. Fabrice Jacob and Mr. Albert Ho hold interests in Shares, details of which are shown in page 90.
- Mr. Tony Fung's and Mr. Peter Fung's interests are included in "Parties acting in concert with the Offeror".
- Mr. Warren Lee Wa Lun, a party acting in concert with the Offeror, held 2,728,000 Shares as at the Latest Practicable Date, representing 0.16% of the issued Shares. He held no interest in Shares immediately before and after the Acquisition. The acquisitions of the Shares by Mr. Warren Lee Wa Lun were as followed:

Number of Share	Acquisition Price	Date of Acquisition
500,000	HK\$0.295	12th November, 2003
298,000	HK\$0.295	21st November, 2003
1,100,000	HK\$0.295	25th November, 2003
330,000	HK\$0.295	27th November, 2003
500,000	HK\$0.295	28th November, 2003

LETTER FROM THE BOARD

4. Together with other trustees of the Lee and Lee Trust, Mr. Lee Seng Hui (being also a trustee of the Lee and Lee Trust) held 38.31% interest in Allied Group Limited which is the ultimate holding company of Sun Hung Kai. As such, Mr. Lee Seng Hui is deemed to be interested in 364,151,800 Shares (21.53%) of the Company through Sun Hung Kai.

5. DIRECTORS' POSITION

Mr. Tony Fung Wing Cheung and Mr. Peter Fung Yiu Fai are parties acting in concert with the Offeror. Mr. Xie Da Tong and Li Shi Liang are Directors nominated by Continental Mariner Investment Company Limited for which Yu Ming acted as a financial adviser before. Mr. Philippe Dhamelincourt is a Director nominated by Matignon, the vendor of 87,821,000 Shares to the Offeror. As such, they consider themselves ineligible to make recommendation to the Independent Shareholders in respect of the Offer.

Dr. Ambrose So Shu Fai, Mr. Alexander Chow Yu Chun, Mr. Lee Seng Hui and Mr. Peter Lee Yip Wah are independent of and have no conflict of interest in the Offer. They have been appointed to the Independent Board Committee to advise the Independent Shareholders in respect of the Offer.

None of the Directors intends to accept the Offer in respect of their own Shares.

There is no agreement or arrangement between any Director of the Company and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

6. ADDITIONAL INFORMATION

Your attention is drawn to the letter from Yu Ming (the contents of which are reproduced in this Offer Document), which contains details of the Offer, the Offeror and its future intentions on the Company.

You should also refer to the Letter from the Independent Board Committee and the Letter from Chateron (the contents of which are reproduced in this Offer Document), which contain their recommendation to you as to whether you should accept the Offer, and the reasons for their respective recommendation. Your attention is also drawn to the additional information set out in the Appendices to this Offer Document.

By Order of the Board
YU MING INVESTMENTS LIMITED
Peter Fung
Managing Director

LETTER FROM YU MING



YU MING INVESTMENT MANAGEMENT LIMITED
禹銘投資管理有限公司

2nd December, 2003

Registered Office:
Suite 51, 5th Floor,
New Henry House,
10 Ice House Street,
Central, Hong Kong

*To the Shareholders of
Yu Ming Investments Limited*

Dear Sirs or Mesdames,

**Mandatory Conditional General Offer by
Yu Ming Investment Management Limited
on behalf of Megaland Development Limited
to acquire all the Shares in the
issued share capital of Yu Ming Investments Limited
other than those already owned by Megaland Development Limited
and parties acting in concert with it**

1. INTRODUCTION

On 4th November, 2003, the Company and the Offeror jointly announced the Acquisition, which was fully completed on 18th November, 2003 (*Note 1*). As a result of the completion of the Acquisition, the interests of the Offeror and parties acting in concert with it in the Shares increased from 34.96% to 40.75%, triggering an obligation of the Offeror to make the Offer under the Code to acquire all the Shares other than those owned or agreed to be acquired by the Offeror and parties acting in concert with it. The terms and conditions of the Offer are set out in this Offer Document and the accompanying Form of Acceptance.

The Offeror made the Acquisition because it found the price of HK\$0.30 per Sale Share attractive, which represented a discount of 28.57% to the latest published net asset value per Share.

2. THE OFFER

The Offer will be made in compliance with the Code and on the following basis:

For each Share *HK\$0.30 in cash*

Note 1: The acquisitions of the Sale Shares from Comir SA and Matignon were completed on 5th November and 18th November, 2003, respectively.

LETTER FROM YU MING

As at the Latest Practicable Date, there are no outstanding rights to subscribe for Shares. Therefore the Offer will not be extended to holders of rights to subscribe for Shares.

The Offer Price

The Offer Price of HK\$0.30 per Share represents

- (i) a premium of 1.69% to the closing price of HK\$0.295 per Share as at the Latest Practicable Date;
- (ii) a discount of approximately 3.23% to the closing price of HK\$0.31 per Share on 3rd October, 2003, being the last trading day prior to the date of this announcement, and the date on which the agreement in relation to the Acquisition was entered into;
- (iii) a discount of approximately 0.66% to the average closing price of HK\$0.302 per Share for the period of 10 trading days ended 3rd October, 2003;
- (iv) a discount of approximately 28.57% to the latest published unaudited consolidated net asset value per Share of approximately HK\$0.42 as at 31st October, 2003; and
- (v) a discount of 25% to the unaudited consolidated net asset value per Share of approximately HK\$0.40 as at 30th June, 2003, the date of the latest published financial statements of the Company.

The Offer Price is equal to the sale price of the Sale Share.

Condition of the Offer

The Offer is only conditional upon the Offeror having received acceptances in respect of Shares which, together with Shares held or acquired or agreed to be acquired by it and persons acting in concert with it before or during the Offer, will result in the Offeror and persons acting in concert with it holding more than 50% of the voting rights of the Company.

As at the Latest Practicable Date, neither the Offeror nor any person acting in concert with it has received any irrevocable commitment from any Shareholder to accept or reject the Offer.

The Offeror and its Interests in the Shares

The Offeror is a private company incorporated in the British Virgin Islands with limited liability. The Offeror is wholly owned by Oyster Services Limited, the trustee of Oyster Unit Trust, the ultimate beneficiaries of which are, inter alia, children of Mr. Tony Fung Wing Cheung, the chairman and an executive Director of the Company. The sole director of the Offeror is Mr. Tony Fung Wing Cheung.

LETTER FROM YU MING

As at the Latest Practicable Date, the Offeror and parties acting in concert with it are interested in approximately 40.91% of the issued Shares. The Offeror and/or parties acting in concert with it has no interest or options in or rights to acquire any Shares, and has not dealt in any Shares within the six months prior to 4th November, 2003 (being the date of the Offer Announcement) other than the Acquisition, save for Mr. Warren Lee, details of Mr. Warren Lee's dealing are disclosed in page 89.

Total Consideration

As at the Latest Practicable Date, the total number of issued Shares is 1,691,171,989. Shareholders, other than the Offeror and parties acting in concert with it, hold 999,269,731 Shares. In the event that they all accept the Offer, the total consideration of the Offer will be approximately HK\$299,780,919 based on the Offer Price of HK\$0.30 per Share.

Yu Ming, which is owned as to 75% by Mr. Tony Fung (through his interest in the Offeror) and 25% by Mr. Peter Fung, is engaged by the Offeror as its financial adviser in respect of the Offer and to make the Offer on behalf of the Offeror. Yu Ming is satisfied that there are sufficient financial resources available to the Offeror, without recourse to the business of the Company, to satisfy full acceptance of the Offer. The Offer is being financed by internal resources of the Offeror and parties acting in concert with it, and banking facilities granted to them by ABN Amro Bank N.V. and UBS AG. The payment of interest on, repayment of or security for any liability (contingent or otherwise) will not depend to any significant extent on the business of the Company. Yu Ming is the investment manager of the Company and it charges management fee based on the net asset value of the Company, and incentive fee based on the performance of the Company.

Terms of the Offer

The Shares will be acquired free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and third party rights of any nature and together with all rights attaching to them, including the right to received in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Offer Announcement.

Payment

Payment in cash in respect of acceptances of the Offer will be made by the Offeror to the Accepting Shareholders as soon as possible but in any event within ten days of the later of the date on which the Offer becomes or is declared unconditional and the date of receipt of a duly completed acceptance.

Settlement of the consideration to which any Accepting Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right to set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Accepting Shareholder.

LETTER FROM YU MING

Stamp Duty

Sellers' ad valorem stamp duty for the Shares arising in connection with acceptances of the Offer will be payable by each Accepting Shareholder at the rate of HK\$1 for every HK\$1,000 or part thereof of the consideration payable by the Offeror for such Accepting Shareholder's Shares and will be deducted from the cash amount due to such Accepting Shareholder under the Offer. The amount so deducted will be applied in the payment of the sellers' ad valorem stamp duty by the Offeror on behalf of the Accepting Shareholders.

Compulsory Acquisition

In the event the Offeror acquires not less than 90% of the Shares in respect of which the Offer is made within four months of making the Offer, the Offeror's intention is that it will not exercise its rights under the Companies Ordinance to compulsorily acquire all the Shares which were not acquired by the Offeror, but it reserves the right to do so.

3. OFFEROR'S INTENTION IN RELATION TO THE COMPANY

The director of the Offeror does not intend to make any change to the existing business of the Group, the Board or its management. The business of the Company shall remain investments in listed and unlisted securities. The Offeror has no intention to inject any assets into the Company.

The Offeror has no plan to discontinue employment of any employee of the Company.

4. CONTINUATION OF LISTING OF THE COMPANY

The Company is listed on the Stock Exchange since 21st December, 1990. It is the intention of the director of the Offeror and the Company that the listing of the Shares on the Stock Exchange should be maintained and appropriate steps will be taken by the Offeror and the Company as soon as possible following the closing of the Offer to ensure that not less than 25% of the Shares will be held in public hands.

The Stock Exchange has indicated that if, upon closing of the Offer, less than 25% of the issued share capital of the Company is held in public hands or if the Stock Exchange believes that a false market exists or may exist in the trading of Shares or there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares.

The Stock Exchange has also stated that it will closely monitor all future acquisitions or disposals of assets by the Company. If the Company remains listed on the Stock Exchange, any acquisitions or disposals of assets by the Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has discretion to require the Company to issue a circular to the Shareholders irrespective of the size of the proposed acquisitions and disposals of assets by the Group represent a departure from the principal activities of the Group. The Stock Exchange has the power to aggregate a series of acquisitions and disposals of assets by the Group and any such acquisitions and disposals of assets may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing application as set out in the Listing Rules.

LETTER FROM YU MING

5. GENERAL

The Independent Board Committee comprising Dr. Ambrose So Shu Fai, Mr. Alexander Chow Yu Chun, Mr. Lee Seng Hui and Mr. Peter Lee Yip Wah has been formed to consider the Offer, and Chateron has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Offer.

Investors and Shareholders should note that the Offer may or may not become unconditional and therefore should trade in the Shares with caution. Once the Offer becomes unconditional, an announcement will be made to inform Shareholders.

Yours faithfully
For and on behalf of
YU MING INVESTMENT MANAGEMENT LIMITED
Warren Lee
Director



YU MING INVESTMENTS LIMITED
禹銘投資有限公司

2nd December, 2003

To the Independent Shareholders of the Company,

Dear Sirs or Mesdames,

**Mandatory Conditional General Offer by
Yu Ming Investment Management Limited
on behalf of Megaland Development Limited
to acquire all the Shares in the
issued share capital of Yu Ming Investments Limited
other than those already owned by Megaland Development Limited
and parties acting in concert with it**

We have been appointed to form the Independent Board Committee to advise you in connection with the Offer, details of which are set out in the Letter from the Board in the Offer Document dated 25th November, 2003 of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Offer Document unless the context otherwise requires.

Your attention is drawn to the Letter from the Board and the Letter from Yu Ming set out on pages 5 to 8 and pages 9 to 13, respectively, of the Offer Document and the Letter from Chateron with its advice in relation to the Offer as set out on pages 16 to 42 of the Offer Document.

Each of the members of the Independent Board Committee has read the letter from Chateron and disagrees with its conclusions and recommendations. Each of them considers the Offer Price at HK\$0.30 per Share low in comparison with the consolidated net asset value per Share of HK\$0.42 as at 31st October, 2003. Further, based on the interim report of the Company as at 30th June, 2003, the Group's earnings performance is satisfactory, improving from HK\$0.0023 per Share for the six months ended 30th June, 2002 to HK\$0.0443 per Share for the six months ended 30th June, 2003. With the completion of the restructuring of Tem Fat Hing Fung (Holdings) Limited, the Group recovered a significant amount of receivable of HK\$20.9 million. At the same time the Group's investment in debt and equity securities both appreciated substantially for an amount of approximately HK\$51.7 million during the first half of 2003.

In the second half of the year, the investment portfolio of the Company has performed well along with the general market in Hong Kong. In particular, the investment in a media company has generated very satisfactory return to the Company. Other listed equity investments, investments in unlisted investment trusts have also generated return in line with the general market. We cannot opine on the immediate prospects of these investments given the recent advance in the Hong Kong market in general but the Company only invests in companies after due and careful consideration of their risk and return profile.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Our views on the letter from Chateron are as follows :

Chateron's attempt to distinguish the income and capital gains of the Group is in our view inappropriate. The objective of the Company is to make profits, whether they are derived from income or capital gains. The only reason the Company treats income as turnover is purely an accounting one, rather than a practical one. When considering the trend of the Company, Shareholders should consider the net profit (which comprises both income and capital gains) and the net asset value of the Company, both of which have shown improvement in the six months ended 30th June, 2003.

In respect of Chateron's opinion on the Offer Price in comparison to the historical market price of the Shares, our view is that the historical average Share price of HK\$0.2532 in the year prior to the announcement of the Offer was unreasonably low compared to its average published monthly net asset value of HK\$0.3836 per Share. Our view is that the Offer Price is also low compared to the HK\$0.42 net asset value per Share as at 30th October, 2003. Given the composition of our investment portfolio, which largely comprises liquid securities or securities that can be liquidated in short notice, we believe the use of net asset value is a better indication of the value of the Company than the Share price.

As to Chateron's analysis of dividend policy of the Company, our view is that although the Board has not yet formulated its long-term dividend policy, the suspension of dividend payment for the first half of 2003 to preserve cash resources for future investments reflects optimism of the Company, given improving market conditions in Hong Kong and overseas and therefore should not be viewed as a negative factor.

Chateron's view on liquidity is the one that we neutral on. Each Shareholder has differing liquidity requirement at different times. In our views, Shareholders invest in our Company knowing the relative low liquidity of the Shares. It is extremely difficult for us to advise Shareholders whether they should accept the Offer because of the possible liquidity offered by the Offer (only after it becomes unconditional). It depends on how urgent a particular Shareholder wants to convert his/her Shares in cash. In any event, accepting the Offer does not guarantee liquidity until the Offer becomes unconditional.

Other aspects of the letter from Chateron are of less importance and are not dealt with in this letter.

For the reasons we have stated in the preceding paragraphs, the Offer Price is considered not fair and not reasonable, and we recommend to the Independent Shareholders that they not accept the Offer.

Yours faithfully

for and on behalf of

the Independent Board Committee

Dr. Ambrose So Shu Fai

Mr. Lee Seng Hui

Mr. Alexander Chow Yu Chun

Mr. Peter Lee Yip Wah

LETTER FROM CHATERON

CHATERON
CORPORATE FINANCE LIMITED
SUITE 20B, 20TH FLOOR,
9 QUEEN'S ROAD CENTRAL, HONG KONG
TEL : (852) 2868 2828 FAX : (852) 2868 0390

華
夏
融
資
有
限
公
司

2nd December, 2003

The Independent Board Committee
Yu Ming Investments Limited
Suite 51, 5th Floor
New Henry House
10 Ice House Street
Central
Hong Kong

Dear Sirs,

MANDATORY CONDITIONAL GENERAL OFFER

We refer to the composite offer document dated 2nd December, 2003 (the “**Offer Document**”) issued by Megaland Development Limited and Yu Ming Investments Limited (the “**Company**”) in relation to, inter alia, the Offer, and of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Offer Document unless the context herein otherwise requires.

Details of, inter alia, the terms and condition of the Offer are referred to in the letter from Yu Ming Investment Management Limited as set out on pages 9 to 13 of the Offer Document. As referred to in the letter from the Board as set out on pages 5 to 8 of the Offer Document, the Independent Board Committee will be constituted by the Company to advise the Shareholders other than the Offeror and its concert parties (the “**Offer Shareholders**”) in relation to the Offer.

Accordingly, the Independent Board Committee comprising Messrs So Shu Fai, Ambrose, Chow Yu Chun, Alexander, Lee Seng Hui and Lee Yip Wah, Peter, being non-executive Directors, has been constituted by the Company to advise the Offer Shareholders in relation to the Offer. In evaluating the eligibility of Messrs So Shu Fai, Ambrose, Chow Yu Chun, Alexander, Lee Seng Hui and Lee Yip Wah, Peter in being appointed by the Company as members of the Independent Board Committee, we noted that:-

- (a) Mr. Fung Wing Cheung, Tony, Chairman and an executive Director, is a sole director of the Offeror and therefore he is interested in the Offer. Therefore, we consider that Mr. Fung Wing Cheung, Tony is not eligible for appointment as a member of the Independent Board Committee;

LETTER FROM CHATERON

- (b) Mr. Fung Yiu Fai, Peter, Managing Director and an executive Director, declared that he had a beneficial interest in 6,500,000 Shares (representing approximately 0.38% of the Company's issued share capital) as at the Latest Practicable Date and is therefore an Offer Shareholder who is eligible to consider and, if thought fit, accept the Offer. Nevertheless, Mr Fung Yiu Fai, Peter declared that he is a 25% shareholder of Yu Ming Investment Management Limited, who is the financial adviser to the Offeror in relation to the Offer. Therefore, we consider that Mr Fung Yiu Fai, Peter has a conflict of interest in the Offer and is not eligible for appointment as a member of the Independent Board Committee;
- (c) Mr. Philippe Dhamelincourt, an executive Director, is a representative nominated by Matignon to the Board and Matignon was the vendor of an aggregate of 87,821,000 Shares to the Offeror pursuant to the Acquisition. Accordingly, Mr. Philippe Dhamelincourt was interested in the Acquisition, the completion of which results in the Offeror's obligations to make the Offer. Therefore, Mr. Philippe Dhamelincourt has a conflict of interest in the Offer and is not eligible for appointment as a member of the Independent Board Committee;
- (d) Mr. Xie Da Tong, an executive Director, is a representative of Continental Mariner Investment Company Limited ("CMIC") on the Board. CMIC is a substantial Shareholder who is beneficially interested in approximately 7.06% of the Company's issued share capital as at the Latest Practicable Date, and is an Offer Shareholder who is eligible to consider and, if thought fit, accept the Offer. Nevertheless, Yu Ming Investment Management Limited, who is the financial adviser to the Offeror in relation to the Offer, has provided financial advisory services to CMIC during the past two years immediately prior to the date of announcement of the Offer. We therefore consider that Mr. Xie Da Tong has a conflict of interest in the Offer and is not eligible for appointment as a member of the Independent Board Committee;
- (e) Mr. Li Shi Liang, an executive Director, is also a representative of CMIC on the Board. CMIC is an Offer Shareholder who is eligible to consider and, if thought fit, accept the Offer. Nevertheless, Yu Ming Investment Management Limited, who is the financial adviser to the Offeror in relation to the Offer, has provided financial advisory services to CMIC during the past two years immediately prior to the date of announcement of the Offer. We therefore consider that Mr. Li Shi Liang has a conflict of interest in the Offer and is not eligible for appointment as a member of the Independent Board Committee;
- (f) Mr. Fabrice Jacob, an executive Director (and an alternate Director to Mr. Philippe Dhamelincourt), declared that he was nominated as a Director by Matignon, the vendor of an aggregate of 87,821,000 Shares to the Offeror pursuant to the Acquisition and the completion of which results in the Offerors' obligations to make the Offer. Accordingly, we consider that Mr. Fabrice Jacob is interested in the Acquisition and has a conflict of interest in the Offer and therefore he is not eligible for appointment as a member of the Independent Board Committee;
- (g) Dr. So Shu Fai, Ambrose, a non-executive Director, declared that (i) he was not interested in the Offer and therefore he did not have any conflict of interest in the Offer as at the Latest Practicable Date; (ii) he had no financial or any other connection with any of the Offeror, the Company or its controlling shareholder and/or substantial shareholders or any party acting or presumed to be acting in concert with any of them; and (iii) he did not have any direct or indirect equity or equity-related interests in the Offeror, the Company or its

LETTER FROM CHATERON

controlling shareholder and/or substantial shareholders or any party acting or presumed to be acting in concert with any of them. Therefore, we consider that Dr. So Shu Fai, Ambrose is eligible for appointment as a member of the Independent Board Committee;

- (h) Mr. Chow Yu Chun, Alexander, a non-executive Director, declared that (i) he was not interested in the Offer and therefore he did not have any conflict of interest in the Offer as at the Latest Practicable Date; (ii) he had no financial or any other connection with any of the Offeror, the Company or its controlling shareholder and/or substantial shareholders or any party acting or presumed to be acting in concert with any of them; and (iii) he did not have any direct or indirect equity or equity-related interests in the Offeror, the Company or its controlling shareholder and/or substantial shareholders or any party acting or presumed to be acting in concert with any of them. Therefore, we consider that Mr. Chow Yu Chun, Alexander is eligible for appointment as a member of the Independent Board Committee;
- (i) Mr. Lee Seng Hui, a non-executive Director, declared that he is also a director and chief executive of Allied Group Limited, which is the ultimate holding company of Sun Hung Kai, a substantial Shareholder who is beneficially interested in approximately 21.53% of the Company's issued share capital as at the Latest Practicable Date. As at the Latest Practicable Date, together with other trustees of the Lee and Lee Trust, Mr. Lee Seng Hui (being also a trustee of the Lee and Lee Trust) held an approximately 38.31% interest in Allied Group Limited which is the ultimate holding company of Sun Hung Kai. As such, Mr. Lee Seng Hui is deemed to be interested in 364,151,800 Shares, representing approximately 21.53% of the Company's issued share capital as at the Latest Practicable Date, through Sun Hung Kai. Accordingly, Mr. Lee Seng Hui is deemed to be a substantial Shareholder of the Company and is an Offer Shareholder who is eligible to consider and, if thought fit, accept the Offer. Nevertheless, Mr. Lee Seng Hui shall not be precluded from being appointed as a member of the Independent Board Committee on the grounds that he is a shareholder of the Company. Therefore, we consider that Mr. Lee Seng Hui is eligible for appointment as a member of the Independent Board Committee;
- (j) Mr. Lee Yip Wah, Peter, a non-executive Director, declared that he had a beneficial shareholding of 1,550,000 Shares (representing approximately 0.09% of the Company's issued share capital) as at the Latest Practicable Date. Accordingly, we consider that Mr. Lee Yip Wah, Peter is an Offer Shareholder who is eligible to consider and, if thought fit, accept the Offer. Nevertheless, Mr. Lee Yip Wah, Peter shall not be precluded from being appointed as a member of the Independent Board Committee on the grounds that he is a shareholder of the Company. Therefore, we consider that Mr. Lee Yip Wah, Peter is eligible for appointment as a member of the Independent Board Committee; and
- (k) Mr. Albert Ho, a non-executive Director (and an alternate Director to Dr. So Shu Fai, Ambrose), declared that he had a beneficial interest in 300,000 Shares (representing approximately 0.02% of the Company's issued share capital) as at the Latest Practicable Date. Accordingly, we consider that Mr. Albert Ho is an Offer Shareholder who is eligible to consider and, if thought fit, accept the Offer. Nevertheless, Mr. Albert Ho shall not be precluded from being appointed as a member of the Independent Board Committee on the grounds that he is a shareholder of the Company. Therefore, we consider that Mr. Albert Ho is eligible for appointment as a member of the Independent Board Committee. However, since Dr. So Shu Fai, Ambrose is appointed as a member of the Independent Board Committee

LETTER FROM CHATERON

to advise on the Offer and that Mr. Albert Ho is an alternate Director to Dr. So Shu Fai, Ambrose, we consider that it is not necessary for Mr. Albert Ho to be appointed as a member of the Independent Board Committee,

and accordingly Messrs So Shu Fai, Ambrose, Chow Yu Chun, Alexander, Lee Seng Hui and Lee Yip Wah, Peter are eligible in being appointed by the Company as members of the Independent Board Committee to advise the Offer Shareholders in relation to the Offer.

We, Chateron, have been appointed to advise the Independent Board Committee in relation to the Offer. This letter contains our advice to the Independent Board Committee as to whether or not the terms and condition of the Offer are fair and reasonable and are in the interests of the Offer Shareholders, and our advice to the Independent Board Committee as to whether or not it should recommend the Offer Shareholders to accept the Offer.

In formulating our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have relied on the accuracy of the information and representations contained in the Offer Document which have been provided to us by the Directors and in respect of which the Directors consider to be complete and relevant. We have assumed that all statements, information and representations made or referred to in the Offer Document, for which the Directors are solely responsible, were true and correct in all respects at the time they were made and continued to be so as at the date of despatch of the Offer Document. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Offer Document were reasonably made after due and careful enquiries and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Offer Document. We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Offer Document and to provide a reasonable basis for our opinion and recommendation. We have no reason to suspect that any material information has been withheld by the Company or any of its subsidiaries in formulating our advice to the Independent Board Committee in relation to the Offer. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the affairs of the Company or any of its subsidiaries.

In formulating our opinion and recommendation, we have not considered the tax consequences on any Shareholder as a result of the acceptance (or otherwise) of the Offer by the Offer Shareholders, since these are particular to the individual circumstances of any Shareholder. It is emphasized that we will not accept any responsibility or liability for any tax effects on or liabilities of any person resulting from the acceptances of the Offer by the Offer Shareholders. In particular, any Shareholder who is in any doubt about his/her own tax position in connection with the Offer should consult his/her own professional adviser(s).

LETTER FROM CHATERON

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the terms and condition of the Offer, we have considered the principal factors and reasons set out below:–

1. Business review and prospects of the Group

1.1 Business review

The Company is governed under Chapter 21 of the Listing Rules entitled “Investment Vehicles” as an investment company. The Group is engaged in the holding of listed and unlisted securities. Set out below is a summary of (i) the Company’s audited consolidated financial results during the three financial years ended 31st December, 2002; and (ii) the Company’s unaudited consolidated financial results during the period of six months ended 30th June, 2003 (with the Company’s unaudited consolidated financial results during the corresponding period of six months ended 30th June, 2002 for comparison purpose):–

	Six months ended		Year ended 31st December,		
	30th June, 2003	2002	2002	2001	2000
	<i>HK\$'000</i> <i>(Unaudited)</i>	<i>HK\$'000</i> <i>(Unaudited)</i>	<i>HK\$'000</i> <i>(Audited)</i>	<i>HK\$'000</i> <i>(Audited)</i>	<i>HK\$'000</i> <i>(Audited)</i>
Turnover – investment income	4,086	9,156	16,855	18,482	33,782
% (decrease)	(55%)	n/a	(9%)	(45%)	
Operating profit/(loss) attributable to investment income	(5,257)	922	96	(14,271)	(9,858)
<i>Profit/(loss) attributable to activities other than investment income (note 1):–</i>					
Profit on disposal of securities	39,558	6,962	45,476	9,163	32,183
Impairment(loss) on investments	–	(10,390)	(44,871)	(47,491)	(410,180)
Unrealized gain/(loss) on investments	12,142	(15,508)	(25,295)	(6,974)	(5,660)
Bad debt recovery/(provision)	20,902	(6,200)	(6,200)	(4,000)	–
Sundry income/(losses)	2,443	20,488	36,098	(875)	30,015
Total profit/(loss) attributable to activities other than investment income (a)	75,045	(4,648)	5,208	(50,177)	(353,642)
Overall operating profit/(loss) (b)	69,788	(3,726)	5,304	(64,448)	(363,500)
% improvement	1,973%	n/a	108%	82%	
<i>% weighting of the Group's overall operating profit/(loss) as represented by total profit/(loss) attributable to activities other than investment income (a)/(b)</i>	108%	125%	98%	78%	97%
Dividend per share (HK\$)	nil	0.02	0.04	0.04	0.04

Note 1: These profits/(losses) are nevertheless related to the Group's investments.

LETTER FROM CHATERON

The Group's turnover comprises (i) interest income from bank deposits; (ii) dividend income from investments in listed and unlisted securities; and (iii) interest income from investments in debt securities. The Group also records sundry income which mainly comprises exchange gains, which are generated during a financial year/period in which the Group has carried out transactions denominated in foreign currencies. Furthermore, the Group records profits or losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) and which comprise, inter alia, (i) profits or losses on disposals of investments; (ii) unrealized gains or losses on investments; and (iii) impairment losses on the Group's investments. We consider that such profits or losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) only arise when (a) the Group disposed of its investments; and/or (b) the Directors considered it necessary to record unrealized gains or losses on the Group's investments with reference to the then prevailing market conditions and sentiment as a whole; and (c) the Directors considered it necessary to record impairment losses on the Group's investments with reference to the then prevailing market conditions and sentiment as a whole.

We noted that out of the Group's reported overall operating profit/(loss) during the past three financial years ended 31st December, 2002 and during the period of six months ended 30th June, 2003, a significant proportion of between 78% and 125% was attributable to the Group's profits or losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) during the financial years/periods then ended. In this regard, we were informed by the Directors that the Group recorded an impairment loss on investments of approximately HK\$410 million, which mainly relates to the Group's impairment loss on a promissory note receivable from Tem Fat Hing Fung (Holdings) Limited, a third party who is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates, in the amount of HK\$371 million during the financial year ended 31st December, 2000. Otherwise, for the two financial years ended 31st December, 2002 and for the period of six months ended 30th June, 2003, the profits and losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) arose as a result of the Group's disposal of investments as well as the unrealized gains and losses, exchange gains and losses and impairment losses on investments with reference to the prevailing market conditions and sentiment as a whole, which are variable from year to year and from period to period.

Based on the table above, we consider that the Group's profits/losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) are variable from year to year and from period to period, and therefore do not procure a stable income stream for the Shareholders. Therefore, we consider that it would be more appropriate for the Offer Shareholders to focus their evaluation on the Group's financial performances based on the Group's turnover derived from investment income which comprise (i) interest income from bank deposits; (ii) dividend income from investments in listed and unlisted securities; and (iii) interest income from investments in debt securities. In this regard, we noted that the Group's turnover derived from investment income had decreased by (i) approximately 45% from 2000 to 2001; (ii) approximately 9% from 2001 to 2002; and (iii) approximately 55% from the first six months of 2002 to the first six months of 2003. Based on our observation above, we are of the view that the Group's turnover derived from investment income demonstrated a declining trend during the three financial years ended 31st December, 2002 and during the six months ended 30th June, 2003.

LETTER FROM CHATERON

Furthermore, although the Company declared and paid a constant dividend level of HK\$0.04 per Share during each of the past three financial years ended 31st December, 2002, the Company did not declare any interim dividend for the six months ended 30th June, 2003 which compares unfavourably against the Company's interim dividend of HK\$0.02 per Share during the corresponding six months ended 30th June, 2002. We noted that in this regard, the Company did not declare any dividend in any financial accounting period for the first time since the Company's listing on the Stock Exchange in 1990. Therefore, we consider that there exists uncertainty as to whether or not the Company would be able to sustain its historical dividend track record.

1.2 Prospects

As referred to in the Company's interim report for the six months ended 30th June, 2003, the Company has invested in the Hong Kong International Exhibition Centre ("**HKIEC**") project. We have enquired with and were informed by the Directors that HKIEC's shareholders include The Government of the Hong Kong Special Administrative Region, the Airport Authority, Dragages et Travaux Publics (HK) Limited and the Company. The Company has taken part in a joint venture company with, inter alia, Dragages et Travaux Publics (HK) Limited in August 2003. Such a joint venture company has an aggregate beneficial interest of 13.5% in the HKIEC project and the total investment by the joint venture company in the HKIEC project amounted to approximately HK\$353 million. HKIEC is a project under development to become a major exhibition centre in Hong Kong upon completion. Nevertheless, we were informed by the Directors that the HKIEC development project is in its very early stages of development as at the Latest Practicable Date, and that the Group is unlikely to benefit from any imminent financial returns therefrom until full completion of development of the HKIEC project. In this regard, we were informed by the Directors that the HKIEC development project is expected to be completed in the year 2006.

Therefore, we consider that it is pre-mature for us to be able to evaluate the commercial success of the Group's investment in the HKIEC project, given our understanding from the Directors that the Group only invested in the HKIEC project in as recently as August 2003 and that the HKIEC project is in its very early stages of development as at the Latest Practicable Date, and that the HKIEC development project is expected to be completed in the year 2006. Nevertheless, as discussed above, we noted that the Group's turnover derived from investment income demonstrated a declining trend during the three financial years ended 31st December, 2002 and during the six months ended 30th June, 2003. Furthermore, as discussed above, we noted that the Group's profits and losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) are reliant on any disposals of investments by the Group as well as the prevailing market conditions and sentiment as a whole. In this regard, we noted that although the Group's total profit/(loss) attributable to activities other than investment income (but which are nevertheless related to the Group's investments) has demonstrated an improving trend during the three financial years ended 31st December, 2002 and the six month period ended 30th June, 2003, there exists uncertainties in the overall market conditions and sentiment and therefore there is no assurance that such an improving trend in the Group's total profit/(loss) attributable to activities other than investment income (but which are nevertheless related to the Group's investments) may continue to be sustainable. Therefore, based on the foregoing and in particular having regard to our observation that the Group's total profit/(loss) attributable to activities other than investment income (but which are nevertheless related to the Group's investments) represents a significant weighting of between 78% and 125% of the Group's reported overall operating profit/(loss) during the past three financial years ended 31st December, 2002 and the period of six months ended 30th June, 2003, we are of the view that the

LETTER FROM CHATERON

Group's business prospects are reliant on market conditions and sentiment and may therefore be variable from year to year.

We were informed by the Directors that as far as the Group's investment portfolio is concerned, as at the Latest Practicable Date, the Group directly invests in (i) listed equities in Hong Kong; (ii) an unlisted Hong Kong-based investment fund which invests in Hong Kong listed securities; (iii) an unlisted Hong Kong-based investment fund which invests in bonds and debt securities mainly in the Hong Kong, European, the United States of America, Japan and Australia markets; and (iv) a minority interest in the HKIEC project. As discussed above, we noted that the HKIEC project will not generate any imminent financial returns to the Group given the expected completion date of the HKIEC project by the year 2006. We have therefore analysed the historical contributions of the abovementioned investment portfolio (other than the HKIEC project) to the Group's turnover during the three financial years ended 31st December, 2002 and the period of six months ended 30th June, 2003, as follows :-

	Six months ended 30th June,		Year ended 31st December,		
	2003	2002	2002	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Interest income from debt securities	1,922	4,686	8,458	7,839	4,716
Bank deposit interest income	1,774	4,270	7,711	10,163	28,679
Dividend income from listed and unlisted equity securities	390	200	686	480	387
Total turnover	<u>4,086</u>	<u>9,156</u>	<u>16,855</u>	<u>18,482</u>	<u>33,782</u>

We noted from the above table that there was an increase in the level of interest income from debt securities by about 66% from approximately HK\$4.7 million in 2000 to approximately HK\$7.8 million in 2001, and a decrease by about 60% from approximately HK\$4.7 million during the first six months of 2002 to approximately HK\$1.9 million during the first six months of 2003. In this regard, we were informed by the Directors that (i) during the year 2001, the Group acquired a number of high-yield corporate bonds listed in overseas markets for an aggregate amount of approximately HK\$81 million which therefore accounts for the 66% increase in the Group's debt securities interest income from 2000 to 2001; and (ii) during the year 2002, the Group's investments in certain high-yield bonds for an aggregate value of approximately HK\$38 million had matured and although the Group acquired bonds which were worth an aggregate value of approximately HK\$63 million during the first six months of 2003, the average market yield for such newly acquired debt securities was lower than before which therefore accounts for the 60% decrease in the Group's debt securities interest income from the first six months of 2002 to the first six months of 2003.

LETTER FROM CHATERON

On the other hand, there was a decrease in the level of bank deposit interest income by about 64% from approximately HK\$28.7 million in 2000 to approximately HK\$10.2 million in 2001, and a decrease by about 58% from approximately HK\$4.3 million during the first six months of 2002 to approximately HK\$1.8 million during the first six months of 2003. In this regard, we were informed by the Directors that (i) the Group's bank and cash deposits had decreased from approximately HK\$395 million by the end of 2000 to approximately HK\$332 million by the end of 2001 which accounts for the 64% decrease in the Group's bank interest income from 2000 to 2001; and (ii) although there was an increase in the Group's bank and cash deposits from approximately HK\$289 million as at 30th June, 2002 to approximately HK\$309 million as at 30th June, 2003, the Group's average market bank deposit interest rate had dropped from between 3 to 4 % per annum during the first six months of 2002 to about 1% during the first six months of 2003, which therefore accounts for the 58% decrease in the Group's bank interest income from the first six months of 2002 to the first six months of 2003.

Nevertheless, we noted that there has been an increasing trend in the level of dividend income from the Group's listed and unlisted investments in equity securities from 2000 to 2002 and from the first six months of 2002 to the first six months of 2003. In this regard, we were informed by the Directors that the Group's aggregate value of listed and unlisted equity securities ranged between approximately HK\$144 million and HK\$234 million during the period between 2000 and the first six months of 2003. However, we consider that unlike debt securities and bank deposits, investments in listed and unlisted equity securities are not fixed income investments and therefore it would not be appropriate to attribute an identifiable trend for the Group's dividend income from listed and unlisted investments in equity securities.

Having considered our observations and the underlying reasons for the fluctuations in the major income components as discussed above, we are of the view that (i) the Group's investments in debt securities, for which over 70% in value as at 30th June, 2003 were acquired by the Group during the first six months of 2003, are generally of a low yield nature; (ii) the Group's bank and cash deposits earn interests but generally at lower market interest rates in view of the interest rate cuts in the Hong Kong and worldwide currency markets in 2002 and 2003; and (iii) the Group's investments in listed and unlisted equity securities do not demonstrate an identifiable dividend income trend, and in fact are reliant on the financial results performances of the investee companies. Therefore, based on the foregoing, we consider that there would be limited prospects on the Group's turnover to be derived from income on its investment portfolio.

The Group directly invests in Hong Kong listed equities which comprise media, telecom, technology and China property stocks listed on the Stock Exchange whose market capitalizations ranged between HK\$160 million and HK\$5.4 billion as at the Latest Practicable Date. The Group also invests, through a Hong Kong-based unlisted investment fund, Hong Kong listed securities of which (i) approximately 42% in value are in form of H-shares issued by enterprises incorporated in the People's Republic of China; (ii) approximately 53% in value are in form of industrial stocks listed on the Stock Exchange whose market capitalizations ranged between HK\$530 million and HK\$39.6 billion as at the Latest Practicable Date; and (iii) the remaining approximately 5% in value is in form of cash. During the past three financial years ended 31st December, 2002 and the period of six months ended 30th June, 2003, (i) the Hang Seng Index demonstrated a decrease by approximately 7,792 points, or about 45%, from 17,369 points as at 1st January, 2000 to 9,577 points as at 30th June, 2003; (ii) the Hang Seng Index H-Share sub-index demonstrated an increase by approximately 726 points, or about 36%, from 2,000 points as at 1st January, 2000 to 2,726 points as at 30th June, 2003; and (iii) the Hang Seng Composite Index (which comprises listed industrial and conglomerate companies on the Stock Exchange other than the Hang Seng

LETTER FROM CHATERON

Index constituent stocks) demonstrated a decrease by approximately 806 points, or about 40%, from 2,000 points as at 1st January, 2000 to 1,194 points as at 30th June, 2003. Therefore, in terms of prospects, we are of the view that the Group's investments in Hong Kong listed equities are subject to risk exposures relating to (i) the economic conditions worldwide, which has an impact on the outlook of the media, telecom, technology and industrial sectors in Hong Kong, as well as the overall stock market sentiments in Hong Kong and worldwide as a whole insofar as the performances of these shares are concerned; (ii) the prevailing state of the economy and the prevailing property market sentiment in the People's Republic of China, which have an impact on the outlook of the China property market insofar as the performances of China property shares are concerned; and (iii) the economic environment and market conditions in the People's Republic of China, which has an impact on the outlook of the results performances of the H-share companies insofar as the performances of the listed H-shares are concerned.

The Group also invests in bonds and debt securities through a Hong Kong-based unlisted investment fund. We have reviewed the portfolio of bonds and debt securities held by such investment fund as at the Latest Practicable Date, from which we noted that they all bear fixed coupon rates and therefore the Group is not subject to interest rate risk exposures attributable to its investment in bonds and debt securities. Furthermore, we noted that out of the Group's bond and debt securities portfolio as at the Latest Practicable Date, (i) about 44% in value is denominated in United States dollars; and (ii) about 56% in value is denominated in Sterling pound, Swiss franc and Euros. Therefore, in terms of prospects, we consider that although the United States dollar is pegged against the Hong Kong dollar which means that the Group's investments in bond and debt securities denominated in United States dollars is unlikely to be subject to significant currency or foreign exchange risk exposures, the Group's investments in bond and debt securities denominated in Sterling pounds, Swiss francs and Euros (which altogether represent over 50% in value of the Group's bonds and debt securities portfolio as at the Latest Practicable Date) are likely to be exposed to currency and foreign exchange risks.

We have reviewed the Group's bank and cash deposits balances as at the Latest Practicable Date, from which we noted that a majority of about 86% is being held in form of United States dollars and the remaining about 14% is being held in Hong Kong dollars. We consider that given the currency peg between the Hong Kong dollar and the United States dollar and that all of the Group's bank and cash deposits balances are held in United States dollars and Hong Kong dollars, we consider that in terms of prospects, the Group is unlikely to be subject to a significant degree of currency or foreign exchange risk exposures attributable to its bank and cash deposits.

Based on the above, we consider that (i) the risk exposures relating to market and economic conditions as well as the stock market sentiment would have an impact on the income and market value of, and thereby an impact on the performance of, the Group's investment portfolio in listed equities; and (ii) the currency and foreign exchange risk exposures would have an impact on the income and market value of, and thereby an impact on the performance of, the Group's investment portfolio in bonds and debt securities. **Nevertheless, we are unable to quantify the magnitude of such impacts for reason that market and economic conditions as well as stock market sentiment are subject to unforeseeable changes. Given that we are unable to evaluate the prospects of the various risk exposures on the performance of the Group's investment portfolio and hence on the Group's financial results performance, we consider that it would be in the interests of the Offer Shareholders to realize their holdings of the Offer Shares and therefore to accept the Offer.**

LETTER FROM CHATERON

2. Reasons for the Offer

As referred to in the letter from the Board as set out on pages 5 to 8 of the Offer Document, the Offeror and its concert parties had an aggregate beneficial interest of 591,353,258 Shares, representing approximately 34.97% of the Company's then issued share capital before the Acquisition. We were informed by the Directors that Matignon, being a close-ended investment fund, entered into negotiations with the Offeror regarding the disposal of its beneficial shareholdings of 87,821,000 Shares in the Company to the Offeror for reason that Matignon is required to liquidate its investments by October 2003. We were also informed by the Directors that Comir SA is a company under common directorship with Matignon, and therefore Comir SA has also approached the Offeror regarding the disposal of its beneficial shareholding of 10,000,000 Shares in the Company. On 3rd October, 2003 (being the date on which the Offeror entered into an agreement to purchase the aggregate of 97,821,000 Shares from Matignon and Comir SA pursuant to the Acquisition), each of Matignon and Comir SA proposed to the Offeror that it will sell its holding of Shares to the Offeror at a price of HK\$0.30 per Share, which figure was determined having regard to the closing Share price of HK\$0.305 on 2nd October, 2003, the preceding trading day of the Shares. We were informed by the Directors that the Offeror has indicated to them that the abovementioned price of HK\$0.30 per Share as proposed by Matignon and Comir SA was acceptable to the Offeror, and therefore an agreement was reached between the Offeror, Matignon and Comir SA in relation to the Acquisition.

Pursuant to the Acquisition, the Offeror acquired the Sale Shares, being an aggregate of 97,821,000 Shares, from Matignon and Comir SA who are both being Shareholders of the Company, at a price of HK\$0.30 per Share. The Acquisition was completed on 18th November, 2003, as a result of which the Offeror and its concert parties have an aggregate beneficial interest in 689,174,258 Shares representing approximately 40.75% in the Company's issued share capital as at the Latest Practicable Date.

In relation to the above, we noted that pursuant to Rule 26.6 of the Code where a person and its concert parties together hold 30% or more but less than 35% of the voting rights of a company immediately prior to 19th October, 2001, for so long as such shareholding remains within this range and until 10 years after 19th October, 2001, the Code shall be interpreted and applied as if the 30% trigger threshold for the purpose of such person's obligation to make a general offer under Rule 26.1 of the Code was 35% for such person. In this regard, we have enquired with and were informed by the Directors that the Offeror and its concert parties were beneficially interested in between 30% and 35% of the Company's issued share capital, both prior to 19th October, 2001 and during the period from 19th October, 2001 up to and including the date of completion of the Acquisition on 18th November, 2003 (which is a date falling on just over two years from 19th October, 2001). Therefore, we consider that the Offeror is subject to the provisions of Rule 26.6 of the Code, and that the Company will be subject to a general offer under Rule 26.1 of the Code at such time when the Offeror and its concert parties shall become beneficially interested in more than 35% of the Company's issued share capital.

Based on the foregoing, the Offeror and its concert parties were in aggregate beneficially interested in approximately 40.75% of the Company's issued share capital as a result of completion of the Acquisition on 18th November, 2003. Accordingly, the Offeror and its concert parties are under an obligation to make the Offer to acquire all the issued Shares other than those already owned or agreed to be acquired by the Offeror and its concert parties (the "**Offer Shares**") in accordance with Rule 26.1 of the Code.

LETTER FROM CHATERON

3. Terms of the Offer

Details of the terms of the Offer are set out in the letter from Yu Ming Investment Management Limited as set out on pages 9 to 13 of the Offer Document. In summary, the Offer will be made by Yu Ming Investment Management Limited, on behalf of the Offeror, at the Offer Price of HK\$0.30 per Share in respect of the Offer Shares held by the Offer Shareholders. The Offer Price of HK\$0.30 per Offer Share is equal to the cash price of HK\$0.30 paid by the Offeror for each Sale Share pursuant to the Acquisition.

4. Condition of the Offer

As referred to in the letter from Yu Ming Investment Management Limited as set out on pages 9 to 13 of the Offer Document, the Offer is subject to and conditional upon the Offeror having received valid acceptances in respect of Offer Shares which, together with the Shares held or acquired or agreed to be acquired by the Offeror and its concert parties before or during the Offer, will result in the Offeror and its concert parties holding more than 50% of the voting rights of the Company upon the first closing date of the Offer.

We noted that, as at the Latest Practicable Date, the Offeror and its concert parties are together beneficially interested in an aggregate of 689,174,258 Shares which represent approximately 40.75% of the Company's issued share capital as at the Latest Practicable Date. In other words, in order for the Offer to become unconditional whereupon the Offeror and its concert parties will together hold an aggregate beneficial interest of more than 50% in the Company's issued share capital (or representing at least 845,585,995 Shares), valid acceptances of not less than 156,411,737 Offer Shares (representing approximately 9.25% of the Company's issued share capital as at the Latest Practicable Date) must be tendered by the accepting Offer Shareholders to the Offer.

LETTER FROM CHATERON

5. The Offer Price

5.1 With reference to the historical trading volume of the Shares in the market

The Offer Price of HK\$0.30 per Offer Share represents a premium of about 1.69% to the closing Share price of HK\$0.295 as at the Latest Practicable Date. In this regard, we have reviewed the historical average daily traded volumes of the Shares in the market during (i) the period of 12 months commencing from 1st October, 2002 up to and including 3rd October, 2003 (the “**Last Trading Day**”), being the last trading day of the Shares on the Stock Exchange prior to the date of announcement of (inter alia) the Offer; and (ii) the period from 5th November, 2003, being the first trading day of the Shares on the Stock Exchange after the release of the announcement of (inter alia) the Offer, up to and including Latest Practicable Date. The relevant statistics are set out below:

Month	Average number of Shares traded daily	As a percentage of the Company’s issued share capital as at the Latest Practicable Date %	As a percentage of the Company’s public float ^(Note 3) as at the Latest Practicable Date %
2002			
October	83,636	0.00%	0.02%
November	172,381	0.01%	0.03%
December	97,500	0.01%	0.02%
2003			
January	39,238	0.00%	0.01%
February	138,947	0.01%	0.03%
March	194,762	0.01%	0.04%
April	218,500	0.01%	0.04%
May	310,000	0.02%	0.06%
June	298,000	0.02%	0.06%
July	402,727	0.02%	0.08%
August	1,580,952	0.09%	0.30%
September	3,119,048	0.18%	0.59%
1st October to 3rd October (i.e. the Last Trading Day)	1,031,000	0.06%	0.19%
6th October to 4th November ^(Note 2)	–	–	–
5th November up to and including Latest Practicable Date	1,760,024	0.10%	0.34%
Average		0.04%	0.129%

LETTER FROM CHATERON

Notes:

2. *Trading in the Shares on the Stock Exchange was suspended during this period pending the announcement of the Acquisition and the Offer.*
3. *The Company's public float comprises 521,465,931 Shares which exclude (i) shareholdings of the Offeror and its concert parties; and (ii) the shareholdings of Sun Hung Kai and CMIC, who are substantial Shareholders beneficially interested in approximately 21.53% and 7.06% of the Company's issued share capital, respectively, as at the Latest Practicable Date.*

Based on the foregoing statistics, we consider that the Shares have historically traded at extremely low levels of liquidity in the market, which represents an average daily traded volume of only approximately 0.04% of the Company's issued share capital and approximately 0.129% of the Company's public float as at the Latest Practicable Date. In this regard, we noted that there was an increase in the average daily traded volume of Shares in the market (i) during the month of September 2003, which amounted to approximately 3.1 million Shares representing approximately 0.18% of the Company's issued share capital as at the Latest Practicable Date and approximately 0.59% of the Company's public float as at the Latest Practicable Date; and (ii) during the period from 5th November, 2003 (being the date of resumption in the trading of the Shares on the Stock Exchange after the release of the announcement in relation to (inter alia) the Offer) up to and including the Latest Practicable Date, which amounted to approximately 1.8 million Shares representing approximately 0.10% of the Company's issued share capital as at the Latest Practicable Date and approximately 0.34% of the Company's public float as at the Latest Practicable Date. We consider that the abovementioned increase in the average daily traded volume of the Shares in September 2003 was attributable to the market reaction to the Company's announcement in August 2003 regarding its investment in HKIEC, as we have discussed in the paragraph headed "Business review and prospects of the Group" above. We also consider that the abovementioned increase in the average daily traded volume of the Shares during the period from 5th November, 2003 up to and including the Latest Practicable Date is attributable to the market reaction to the announcement of the Offer dated 4th November, 2003. In view of our observation that, save as the Company's investment in HKIEC and the Offer, the Company had not announced any major corporate transactions during the period of the past five financial years ended 31st December, 2002 and during the period from 1st January, 2003 up to and including the Latest Practicable Date, we consider that the increases in the trading liquidity of the Shares in September 2003 and during the period from 5th November, 2003 up to and including the Latest Practicable Date to be exceptional incidents.

Therefore, generally speaking, we maintain our view that the Shares have historically traded at extremely low levels of liquidity in the market.

5.2 With reference to the market statistics of other listed companies on the Stock Exchange which are governed under Chapter 21 of the Listing Rules

As referred to in the paragraph headed "Business review and prospects of the Group" above, we noted that the Group's principal business activities is the holding of listed and unlisted securities and that the Company is governed under Chapter 21 of the Listing Rules entitled "Investment Vehicles" as an investment company. We were informed by the Directors that as at the Latest Practicable Date, the Company directly invests in (i) listed equities in Hong Kong; (ii) an unlisted Hong Kong-based investment fund which invests in Hong Kong listed securities; and (iii) an unlisted Hong Kong-based investment fund which invests in bonds and debt securities mainly in the Hong Kong, European, the United States of America, Japan and Australia markets. The Company does not directly invest in any listed or unlisted

LETTER FROM CHATERON

securities in the People’s Republic of China. Therefore, for the purpose of our comparison, we have identified those listed companies on the Stock Exchange which are also governed under Chapter 21 of the Listing Rules as investment companies (the “**Comparable Companies**”) and which also directly invest in listed and unlisted securities in Hong Kong (and, by virtue of such investments, may also have indirect investments in the People’s Republic of China), which are set out as follows:

Name of company	Principal business activities	Closing share price as at the Latest Practicable Date <i>HK\$</i>	Last reported net asset value <i>HK\$’ million</i>	Last reported net asset value per share <i>HK\$</i>	Premium/ (discount) of the closing share price as at the Latest Practicable Date to the underlying net asset value per share <i>%</i>
China Assets (Holdings) Limited	Investments in listed and unlisted companies in Hong Kong and the People’s Republic of China	3.25	88.55	9.29	(65.0)
China Northern Enterprises Investment Fund Limited	Investments in listed and unlisted companies in Hong Kong and the People’s Republic of China	0.74	46.81	0.88 <i>(Note 4)</i>	(15.9)
Earnest Investments Holdings Limited	Investments in listed and unlisted companies in Hong Kong and People’s Republic of China	0.021	39.26	0.1091	(80.75)
Everest International Investments Limited	Investments in listed and unlisted companies in Hong Kong and the People’s Republic of China	0.065	32.01	0.13 <i>(Note 4)</i>	(50.0)
GR Investment International Limited	Investments in listed and unlisted companies in Hong Kong and the People’s Republic of China	0.115	227.57	2.11	(94.5)

LETTER FROM CHATERON

Name of company	Principal business activities	Closing share price as at the Latest Practicable Date <i>HK\$</i>	Last reported net asset value <i>HK\$' million</i>	Last reported net asset value per share <i>HK\$</i>	Premium/ (discount) of the closing share price as at the Latest Practicable Date to the underlying net asset value per share <i>%</i>
Harmony Assets Limited	Investments in listed and unlisted companies in Hong Kong and the People's Republic of China	0.45	140.73	1.16	(61.2)
Haywood Investments Limited	Investments in listed and unlisted companies in Hong Kong and the People's Republic of China	0.09	22.20	0.15	(40.0)
Incutech Investments Limited	Investments in listed and unlisted companies in Hong Kong and the People's Republic of China	1.09	56.42	0.92 <i>(Note 4)</i>	18.5
ING Beijing Investment Company Limited	Investments in listed and unlisted companies in Hong Kong and the People's Republic of China	0.175	163.77	0.304	(42.4)
Prime Investments Holdings Limited	Investments in listed and unlisted companies in Hong Kong and the People's Republic of China	0.285	11.34	0.28 <i>(Note 4)</i>	1.8
UBA Investments Limited	Investments in listed and unlisted companies in Hong Kong only	0.10	88.77	0.08 <i>(Note 4)</i>	25.0

LETTER FROM CHATERON

Name of company	Principal business activities	Closing share price as at the Latest Practicable Date <i>HK\$</i>	Last reported net asset value <i>HK\$' million</i>	Last reported net asset value per share <i>HK\$</i>	Premium/ (discount) of the closing share price as at the Latest Practicable Date to the underlying net asset value per share <i>%</i>
Unity Investments Holdings Limited	Investments in listed and unlisted companies in Hong Kong only	0.1	90.29	0.45	(77.8)
Value Partners China Greenchip Fund Limited	Investments in companies in Hong Kong and the People's Republic of China	17.7	30.70	12.71	39.3
Average (discount) as represented by the share price to the underlying net asset value per share (%)					(34.1)
Company	Investments in listed and unlisted securities in Hong Kong	0.30 <i>(Note 5)</i>	710.3	0.42	(28.57)

Notes:

4. *Being audited financial figures.*
5. *Being the offer price of HK\$0.30 per Offer Share under the Offer.*

As referred to above, the Offer Price of HK\$0.30 per Offer Share represents a discount of approximately 28.57% to the Company's latest published unaudited consolidated net asset value of approximately HK\$0.42 per Share as at 31st October, 2003. Such discount is less than the corresponding average discount of approximately 34% as demonstrated by the Comparable Companies as referred to above. Therefore, we consider that the Offer Price of HK\$0.30 has been determined on a fair and reasonable basis.

LETTER FROM CHATERON

5.3 *With reference to Share price performances during the period of 12 months prior to the Latest Practicable Date*

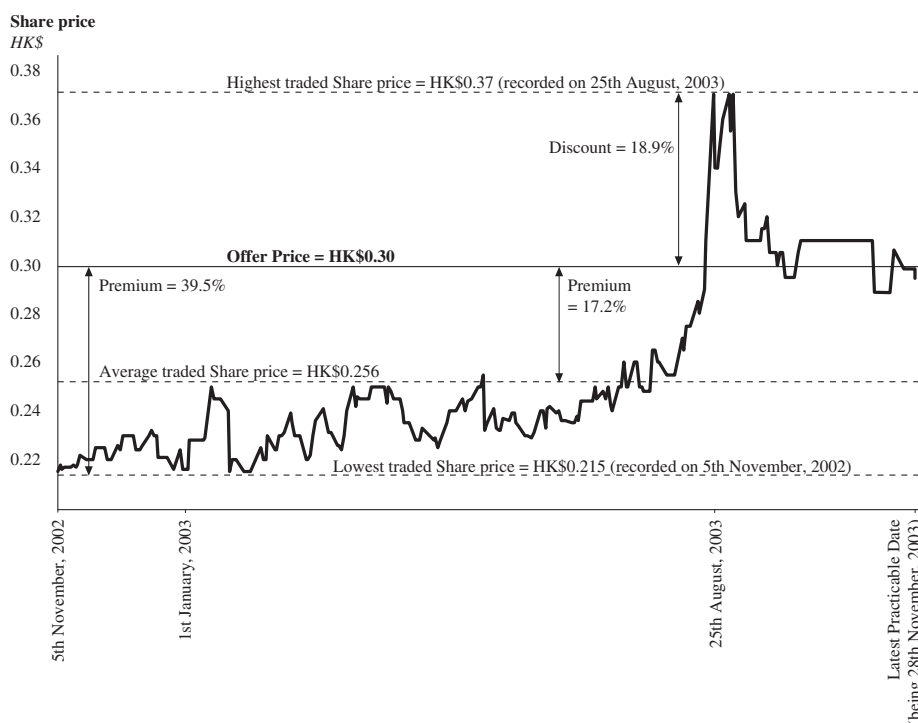
The Offer Price of HK\$0.30 per Offer Share represents:–

- (i) a discount of approximately 3.23% to the closing Share price of HK\$0.31 on the Last Trading Day;
- (ii) a discount of approximately 0.66% to the average closing price of HK\$0.302 per Share for the period of 10 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 1.69% to the closing Share price of HK\$0.295 as at the Latest Practicable Date;
- (iv) a discount of approximately 18.9% to the Company's latest published audited consolidated net asset value of approximately HK\$0.37 per Share as at 31st December, 2002 (being the latest accounts reporting date to which the Company's audited consolidated accounts were prepared and published); and
- (v) a discount of approximately 28.57% to the Company's latest published unaudited consolidated net asset value of approximately HK\$0.42 per Share as at 31st October, 2003 (being the latest accounts reporting date to which the Company's unaudited consolidated net asset value per Share was published).

Based on the above, we noted that the offer price of HK\$0.30 per Offer Share is closely comparable to the historical traded Share prices within the period of 10 trading days up to and including the Last Trading Day, as well as the closing Share price as at the Latest Practicable Date. In this sub-paragraph, we have evaluated the offer price of HK\$0.30 per Offer Share against the Company's historical traded Share price performances during the period from 5th November, 2002 up to and including the Latest Practicable Date. However, as referred to above, the offer price of HK\$0.30 per Offer Share represents a discount of between 19% and 29% to the Company's historical reported net asset values per Share. In sub-paragraph 5.2 above, we have evaluated the discount as represented by the offer price of HK\$0.30 per Offer Share to the Company's net asset value per Share, against the corresponding parameters as demonstrated by other listed companies in Hong Kong which are governed under Chapter 21 of the Listing Rules entitled "Investment Vehicles".

LETTER FROM CHATERON

We have also reviewed the Share price performances during the period from 5th November, 2002 (being the date falling on one year prior to the date of announcement of, inter alia, the Offer on 4th November, 2003) up to and including the Latest Practicable Date (the “Period”), a chart of which is set out below:–



Based on the Share price chart during the Period above, we noted that the Shares recorded (i) a highest traded price of HK\$0.37 on 25th August, 2003; (ii) a lowest traded price of HK\$0.215 on 5th November, 2002; and (iii) an average traded price of HK\$0.256 during the Period. The Offer Price of HK\$0.30 per Offer Share represents (i) a discount of approximately 18.9% to the highest traded price of HK\$0.37 on 25th August, 2003; (ii) a premium of approximately 39.5% to the lowest traded price of HK\$0.215 on 5th November, 2002; and (iii) a premium of approximately 17.2% to the average traded price of HK\$0.256 during the Period. Furthermore, the Share price chart demonstrates that the Offer Price of HK\$0.30 represents a premium over and above the traded Share prices from 5th November, 2002 to late August 2003, which represents a majority of almost 10 months during the Period of about 13 months. We also noted that the traded Share prices increased sharply in late August 2003 (and reached a high of HK\$0.37 on 25th August, 2003), which we consider was the market reaction to the Company’s announcement in August 2003 regarding its investment in HKIEC as discussed in the paragraph headed “Business review and prospects of the Group” above. In this regard, we noted that during a period of approximately three months commencing from 25th August, 2003 up to and including the Latest Practicable Date, the market reaction to the Company’s announcement of its investment in HKIEC had gradually dissipated and that the Share prices had dropped by about 20% from a high of HK\$0.37 on 25th August, 2003 to HK\$0.295 as at the Latest Practicable Date. In this regard, we noted that the Share prices did not return to its traded price levels at the time when the Company announced its investment in the HKIEC development project in August 2003. We believe this is attributable to (i) the market dissipation of the effects about the Company’s announcement of its HKIEC investment, which we have evaluated is unlikely to generate imminent financial returns to the Company for reason that the expected date of completion of

LETTER FROM CHATERON

the HKIEC development project is by the year 2006; and (ii) the market reaction to the announcement of the Offer on 4th November, 2003. The Offer Price of HK\$0.30 per Offer Share represents a premium of about 1.69% to the closing Share price of HK\$0.295 as at the Latest Practicable Date.

Therefore, based on the foregoing, we consider that the Offer Price of HK\$0.30 per Offer Share has been determined on a fair and reasonable basis.

5.4 With reference to the Company's dividend history

For the purpose of comparison, we have made references to the dividend history of the Comparable Companies, being investment companies listed on the Stock Exchange which are governed under Chapter 21 of the Listing Rules entitled "Investment Vehicles" and which are referred to in sub-paragraph 5.2 above, over the horizon of a period of the last five financial years (or commencing from the financial year in which the relevant Comparable Company was listed on the Stock Exchange, if such Comparable Company has a listing history of less than five years). In this regard, we have reviewed and identified those Comparable Companies who declared dividends as part of their distribution of profits resulting from any particular financial year, and we have excluded any special dividend(s) which was/were declared and distributed by any Comparable Company out of capital gains (such as profits arising from the disposals of investments and/or any other assets of any Comparable Company). In this regard, we noted that apart from Unity Investments Holdings Limited, none of the other Comparable Companies had declared any dividend during the period of the past five financial years (or commencing from the financial year in which the relevant Comparable Company was listed on the Stock Exchange, if such Comparable Company has a listing history of less than five years). The relevant statistics are set out as follows:

Name of company	Dividend per share						Closing share price as at the Latest Practicable Date HK\$	Dividend yield (Note 6) %	Dividend coverage (Note 6) times
	1 HK\$	2 HK\$	3 HK\$	4 HK\$	5 HK\$	Average HK\$			
Unity Investments Holdings Limited	n/a	0	0.01	0.01	0	0.005	0.11	4.5%	22
Company	0.04	0.04	0.04	0.04	0.04	0.036 (Note 7)	0.30 (Note 8)	12% (Note 9)	8.3 times (Note 9)

Notes:

6. Calculated on the basis of the closing share price of Unity Investments Holdings Limited as at the Latest Practicable Date.
7. Based on the Company's average dividend per Share during the past five financial years ended 31st December, 2002 and the period of six months ended 30th June, 2003. In this regard, the Company did not declare any interim dividend for the period of six months ended 30th June, 2003.
8. Being the offer price of HK\$0.30 per Offer Share under the Offer.
9. Being calculated based on the offer price of HK\$0.30 per Offer Share under the Offer.

LETTER FROM CHATERON

Based on the above statistics, we noted that given the horizon of a period of the last five financial years :-

- (a) none of the Comparable Companies has stated its dividend policy in any particular financial year, according to the annual report and accounts of the respective Comparable Company;
- (b) the implied historical average dividend yield of approximately 12% as represented by the Offer Price of HK\$0.30 per Offer Share is of a higher magnitude when compared with the corresponding historical dividend yield of approximately 4.5% as demonstrated by Unity Investments Holdings Limited, being the only Comparable Company who possesses a dividend history during the past five financial years, based on its closing share prices as at the Latest Practicable Date; and
- (c) the implied average dividend coverage of approximately 8.3 times as represented by the Offer Price of HK\$0.30 per Offer Share is of a smaller magnitude when compared with the corresponding historical dividend coverage of approximately 22 times as demonstrated by Unity Investments Holdings Limited, being the only Comparable Company who possesses a dividend history during the past five financial years, based on its closing share price as at the Latest Practicable Date.

Given our observation above that the Company's implied historical average dividend yield of approximately 12% (based on the Offer Price of HK\$0.30 per Offer Share) is higher than the corresponding historical dividend yield of approximately 4.5% as demonstrated by Unity Investments Holdings Limited, being the only Comparable Company who possesses a dividend history during the past five financial years, we are of the view that insofar as the Company's dividend yield is concerned, the Company has generated an attractive financial return to the Shareholders by way of dividend when compared with any Comparable Company who possesses a dividend history during the past five financial years.

However, we noted that since the Company's listing on the Stock Exchange in 1990, the Company did not declare any interim dividend for the first time during the six month period ended 30th June, 2003. Therefore, and we are uncertain as to whether or not the Company may be able to sustain its historical dividend track record or its implied historical average dividend yield of approximately 12%, as well as a dividend coverage which is comparable with its historical level (as represented by the Offer Price and based on the average dividend during the past five financial years ended 31st December, 2002 and the period of six months ended 30th June, 2003) of approximately 8.3 times, or which is comparable with the market dividend coverage of approximately 22 times as demonstrated by Unity Investments Holdings Limited, being the only Comparable Company who possesses a dividend history during the span of the last five financial years. In such circumstances, we consider that it would be in the interests of the Offer Shareholders to accept the Offer.

6. The Offeror's intention in relation to the Company after the close of the Offer

As referred to in the letter from Yu Ming Investment Management Limited as set out on pages 9 to 13 of the Offer Document, the Offeror does not intend to make any changes to the Group's existing business, the composition of the Board or the Group's management. The Offeror intends that the business

LETTER FROM CHATERON

of the Company shall remain in investments in listed and unlisted securities, and the Offeror has no intention to inject any assets into the Company after the close of the Offer.

In this regard, we consider that the Offeror's intention in relation to the Company as referred to above is fair and reasonable, for reason that the Offeror has been the single largest Shareholder of the Company both before the Offer period and as at the Latest Practicable Date. The Offeror will remain to be the single largest Shareholder, whether with a controlling interest in the Company or otherwise, following the close of the Offer. Furthermore, we noted that out of the existing six executive Directors within the Board as at the Latest Practicable Date, a majority of four executive Directors have substantial experience in the field of financial management and investment. These four executive Directors comprise the following persons:—

- (i) Mr Fung Wing Cheung, Tony, Chairman of the Company and an executive Director, who has over 28 years of experience in the securities business, property development and investment in the People's Republic of China and has extensive exposure in international finance, commodities, direct investment and fund management;
- (ii) Mr Fung Yiu Fai, Peter, Managing Director of the Company, who has over 26 years of experience in investment banking and has extensive exposure in strategic investments in Hong Kong and South East Asia;
- (iii) Mr Philippe Dhamelincourt, an executive Director, who has over 33 years of experience in investment banking and has extensive experience in strategic investments in Europe, Africa, South America and the Far East; and
- (iv) Mr Fabrice Jacob, an executive Director, who has over 17 years of experience in corporate finance, capital markets and direct investments with different institutions in New York, London, Paris and Hong Kong.

In view of the Offeror's intention that all of the abovementioned executive Directors shall remain as members of the Board after the close of the Offer, we consider that there will be a continuation in the Board's experience and expertise in the field of financial management and investment, which we consider would provide a continuing stewardship function to the Group's business operations after the close of the Offer. Therefore, we consider that the Offer Shareholders should evaluate their acceptances to the Offer (or otherwise) solely based on the terms of the Offer, rather than the Offer Shareholders' expectations of any possible impacts on their interests which may or may not otherwise arise from a change in the Board composition of the Company or the Group's management by virtue of the Offer.

Furthermore, we noted that Chapter 21 of the Listing Rules entitled "Investment Vehicles", under which the Company is being governed, imposes certain requirements to be complied with by an investment company (such as the Company) **at all times** so long as the investment company remains listed on the Stock Exchange. These requirements include, inter alia, that (a) an investment company will not own or control more than 30% of the voting rights in any one investee company; and (b) the value of an investment company's holding of investments issued by any one investee company shall not exceed 20% of the investment company's net asset value at the time when the investment is made, and that the imposed requirements itemized under (a) and (b) above must not be changed at all if the investment

LETTER FROM CHATERON

company wishes to retain its listing status on the Stock Exchange under Chapter 21 of the Listing Rules. In other words, the Company is subject to limitations in respect of any changes in its business nature and asset structure. In this regard, we understand that the Offeror has no intention to change the Company's existing business of investments in listed and unlisted securities, which therefore ensures the Company's continuing compliance with Chapter 21 of the Listing Rules and that the Company shall maintain its listing status on the Stock Exchange notwithstanding the close of the Offer. We further understand that the Offeror has no intention to inject any assets into the Company after the close of the Offer, which means that the Offer Shareholders should evaluate their acceptances to the Offer (or otherwise) solely based on the terms of the Offer, rather than the Offer Shareholders' expectations of any possible impacts on their interests which may or may not otherwise arise from a change in the Group's financial position attributable to the injection of assets into the Company by virtue of the Offer.

Based on the aforementioned, we are of the view that the Offeror's intention in relation to the Company after the close of the Offer are fair and reasonable, for reason that the Offer Shareholders are able to evaluate their acceptances to the Offer (or otherwise) solely based on the terms of the Offer but not their expectations of any changes to the Company by virtue of the Offer which may or may not have possible impacts on the Offer Shareholders' interests.

7. Maintaining the continued listing status of the Company after the Offer

As referred to in the letter from Yu Ming Investment Management Limited as set out on pages 9 to 13 of the Offer Document, it is the intention of the Offeror's sole director, Mr Fung Wing Cheung, Tony (also the Company's chairman and an executive Director), and the Company that the listing of the Shares on the Stock Exchange should be maintained and that appropriate steps will be taken by the Offeror and the Company as soon as possible following the close of the Offer to ensure that not less than 25% of the issued Shares will be held in public hands.

The Stock Exchange has indicated that if, upon the close of the Offer, less than 25% of the Company's issued share capital is held in public hands or if the Stock Exchange believes that a false market exists or may exist in the trading of Shares or that there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares.

The Stock Exchange has also stated that it will closely monitor all future acquisitions or disposals of assets by the Company. If the Company remains listed on the Stock Exchange, any acquisitions or disposals of assets by the Group will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue a circular to the Shareholders irrespective of the size of the proposed acquisitions and disposals of assets by the Group, particularly if such proposed acquisitions and disposals of assets by the Group represents a departure from the Group's principal activities. The Stock Exchange has the power to aggregate a series of acquisitions and disposals of assets by the Group, and any such acquisitions and disposals of assets may result in the Company being treated as if it were a new listing applicant on the Stock Exchange and be subject to the requirements for new listing applications as set out in the Listing Rules.

LETTER FROM CHATERON

Based on the Company's entire issued share capital which comprises 1,691,171,989 issued Shares as at the Latest Practicable Date, we consider that in the event of valid acceptances to the Offer in full from the Offer Shareholders, (i) the Offeror shall be required to place down a minimum of approximately 422.8 million Shares (representing 25% of the Company's issued share capital as at the Latest Practicable Date) in the market to independent investors; or (ii) the Company shall be required to place a minimum of approximately 563.7 million new Shares (representing 25% of the Company's enlarged issued share capital after the issuance of such 563.7 million new Shares) in the market to independent investors, for the purpose of maintaining the Company's minimum 25% public float in accordance with Rule 8.08 of the Listing Rules after the close of the Offer. Based on the closing Share price of HK\$0.295 as at the Latest Practicable Date as a reference, the minimum exposures to the Offeror and the Company in relation to the abovementioned market placings of Shares would amount to approximately HK\$125 million and HK\$166 million, respectively.

We consider that in view of the historically extremely low levels of trading liquidity of the Shares in the market as discussed in the paragraph headed "The Offer Price" above, it is likely that any placings of a significant number of Shares by the Offeror and/or the Company in the market (in the magnitudes of 422.8 million or 563.7 million Shares as referred to above) would only be made possible at price levels which represent substantial discounts to the prevailing market prices of the Shares, and hence possibly causing a significant pressure on the market price performances of the Shares. In this regard, we noted that as discussed in the paragraph headed "The Offer Price" above, the Offer Price of HK\$0.30 per Offer Share represents a premium of approximately 1.69% to the closing Share price of HK\$0.295 as at the Latest Practicable Date. Therefore, we are of the view that for any Offer Shareholder who accepts the Offer, he/she will receive a cash consideration of HK\$0.30 for every Offer Share held by him/her and that since such Offer Shareholder will have disposed of his/her holding of Shares by accepting the Offer, he/she will not be subject to any unforeseeable pressure on the market price performances of the Shares attributable to the effect of market placings by the Offeror and/or the Company as referred to above. On the contrary, we are of the view that for any Offer Shareholder who does not accept the Offer, he/she will retain his/her investment in the Shares which remain listed on the Stock Exchange after the close of the Offer, but may face the risk of being subject to any unforeseeable pressure on the market price performances of the Shares attributable to the effect of market placings as referred to above. Based on the foregoing, on balance, we consider that it is fair and reasonable and would be in the interests of the Offer Shareholders to accept the Offer, and to receive a cash consideration at the Offer Price of HK\$0.30 per Offer Share.

RECOMMENDATION

Having taken into consideration the principal factors and reasons referred to above, in particular that:-

- the Group's turnover derived from its income stream comprising income from investments in listed and unlisted securities, debt securities and bank deposit interest income, have demonstrated a declining trend during the three financial years ended 31st December, 2002 and during the six months ended 30th June, 2003;
- in view of our observation that (i) the majority in value of the Group's investment in debt securities are of a low-yield nature; (ii) the Group's bank and cash deposits generally earn a

LETTER FROM CHATERON

lower level of market interest rates due to interest rate cuts in the currency markets; and (iii) the Group's investments in listed and unlisted equity securities do not demonstrate an identifiable dividend income trend, we consider that there would be limited prospects on the Group's turnover to be derived from income on its investment portfolio;

- the Group's prospects on its investments in Hong Kong listed equities are subject to risk exposures relating to (i) the economic conditions worldwide; (ii) the overall stock market sentiments in Hong Kong and worldwide; and (iii) the prevailing state of the economy, market conditions and the prevailing property market sentiment in the People's Republic of China. Furthermore, given that the Group's investments in bonds and debt securities denominated in Sterling pounds, Swiss francs and Euros altogether represent over 50% in value of the Group's bonds and debt securities portfolio as at the Latest Practicable Date, the Group's investments in bonds and debt securities are likely to be exposed to currency and foreign exchange risks. Nevertheless, given that all of the Group's bank and cash deposits balances as at the Latest Practicable Date are held in United States dollars and Hong Kong dollars which are pegged against one another, the Group's bank and cash deposits balances are unlikely to be subject to a significant degree of currency or foreign exchange risk exposures. Based on the foregoing, we consider that (i) the risk exposures relating to market and economic conditions as well as the stock market sentiment would have an impact on the income and market value of, and thereby an impact on the performance of, the Group's investment portfolio in listed equities; and (ii) the currency and foreign exchange risk exposures would have an impact on the income and market value of, and thereby an impact on the performance of, the Group's investment portfolio in bonds and debt securities. **Nevertheless, we are unable to quantify the magnitude of such impacts for reason that market and economic conditions as well as stock market sentiment are subject to unforeseeable changes. Given that we are unable to evaluate the prospects of the various risk exposures on the performance of the Group's investment portfolio and hence on the Group's financial results performance, we consider that it would be in the interests of the Offer Shareholders to realize their holdings of the Offer Shares and therefore to accept the Offer;**
- **during the two financial years ended 31st December, 2002 and during the period of six months ended 30th June, 2003, the Group's profits and losses attributable to activities other than investment income (but which are nevertheless related to the Group's investments) arose as a result of the Group's disposal of investments as well as the unrealized gains and losses, exchange gains and losses and impairment losses on investments with reference to the prevailing market conditions and sentiment as a whole, which are variable from year to year and from period to period;**
- the Shares had historically traded under an extremely low level of liquidity in the market during the period from 1st October, 2002 up to and including the Latest Practicable Date. Notwithstanding the exceptional increases in the trading liquidity of the Shares in September 2003 and during the period from 5th November, 2003 up to and including the Latest Practicable Date, which we noted are attributable to market reactions to the Company's investment in HKIEC in August 2003 and the announcement of the Offer dated 4th November,

LETTER FROM CHATERON

2003, respectively, the average daily traded volume of Shares represents only approximately 0.04% of the Company's issued share capital as at the Latest Practicable Date and approximately 0.129% of the Company's public float as at the Latest Practicable Date;

- the discount of approximately 28.57% as represented by the Offer Price to the Company's underlying net asset value per Share as at 31st October, 2003 is less than the corresponding average discount of approximately 34% as demonstrated by the Comparable Companies;
- the Offer Price represents a premium over and above the Share traded prices from 5th November, 2002 to late August 2003, which represents a majority of almost 10 months during the Period of about 13 months. Furthermore, we noted that the Share prices had dropped by about 20% from a high of HK\$0.37 on 25th August, 2003 to HK\$0.295 as at the Latest Practicable Date, and had not returned to its previous highest price during the Period. **Furthermore, the Offer Price of HK\$0.30 per Offer Share represents a premium of about 1.69% to the closing Share price of HK\$0.295 as at the Latest Practicable Date;**
- the Offer Price of HK\$0.30 per Offer Share represents an implied historical average dividend yield of 12% and an implied average dividend coverage of approximately 8.3 times, based on the Company's dividend history during the past five financial years ended 31st December, 2002 and during the period of six months ended 30th June, 2003. The Company's implied dividend yield of 12% is higher than the corresponding market dividend yield of approximately 4.5% as demonstrated by the Comparable Companies. Therefore, we consider that the Company has generated an attractive financial return to the Shareholders by way of dividend when compared with the Comparable Companies. However, the Company's implied average dividend coverage of approximately 8.3 times is lower than the corresponding market dividend coverage of approximately 22 times as demonstrated by the Comparable Companies. As we also noted that the Company did not declare any interim dividend for the first time during the six month period ended 30th June, 2003 since the Company's listing on the Stock Exchange in 1990, we are uncertain as to whether or not the Company may be able to sustain its historical dividend track record or its implied historical average dividend yield of approximately 12%, as well as a dividend coverage which is comparable with its historical level of approximately 8.3 times or with the corresponding market dividend coverage of approximately 22 times as demonstrated by the Comparable Companies. Therefore, we advise that it would be in the Offer Shareholders' interests to accept the Offer;
- given the Offeror does not intend to make any changes to the Group's existing businesses, asset composition, Board composition or the Group's management by virtue of the Offer, we consider that the Offer Shareholders should evaluate their acceptances to the Offer (or otherwise) solely based on the terms of the Offer; and
- in the event of full valid acceptances to the Offer from the Offer Shareholders, the Offeror or the Company will be required to place down to independent investors in the market such number of Shares equivalent to a minimum exposure of approximately HK\$125 million or HK\$166 million, respectively, based on the closing Share price of HK\$0.295 as at the Latest Practicable Date, in order to maintain the Company's 25% minimum public float after the

LETTER FROM CHATERON

close of the Offer. We consider that, in view of the historically extremely low trading liquidity of the Shares in the market, such market placings by the Offeror and/or the Company would cause pressure on the market price performances of the Shares. Therefore, we would advise the Offer Shareholders to accept the Offer for reasons that by doing so, they would not be subject to any unforeseeable pressure on market price performances of the Shares attributable to the effect of market placings by the Offeror and/or the Company of a substantial amount of Shares in the market as referred to above,

we are of the opinion that the terms and condition of the Offer are fair and reasonable and are in the interests of the Offer Shareholders. Therefore, we would advise the Independent Board Committee to recommend the Offer Shareholders to accept the Offer.

Yours faithfully,
For and on behalf of
Chateron Corporate Finance Limited
Christopher Wong
Director

1. PROCEDURES FOR ACCEPTANCE

If the certificate and, or transfer receipt and, or any other documents of title, in respect of your Shares or options is, are in your name, and you wish to accept the Offer, you should complete the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer. The duly completed Form(s) of Acceptance should be sent together with the relevant certificate and/or transfer receipt and, or other documents of title, and, or any indemnity required in respect thereof, by post or by hand, marked “Yu Ming Offer” on the envelope, to Secretaries Limited at no later than 4:00 p.m., Tuesday, 23rd December, 2003 or such other time and/or date as may be announced by the Offeror in compliance with the Code.

If the certificate and/or transfer receipt and/or any other documents of title in respect of your Shares are in the name of a nominee company or some name other than your own, and you wish to accept the Offer (in full or in part), you must either:

- (a) lodge your Share certificate and/or transfer receipt and/or any other documents of title with the nominee company, or other nominee, with instructions authorizing it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant Share certificate and/or transfer receipt and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect of any lost Share certificate) to the Registrar; or
- (b) arrange for the Shares to be registered in your name by the Company through its share registrar and send the Form of Acceptance duly completed together with the relevant Share certificate and/or transfer receipt and/or any other document of title (and/or any satisfactory indemnity or indemnities required in respect of any lost Share certificate) to the Registrar; or
- (c) if you have deposited your Shares with CCASS, instruct your broker to authorize HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited before the Closing Date. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker for the timing on processing your instruction, and submit your instruction to your broker as required.
- (d) if you have lodged your Shares with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System not later than one business day (in this case, 23rd December, 2003) before the latest date for acceptance of the Offer.

If you have lodged transfer of Shares for registration in your name and have not yet received your Share certificate and you wish to accept the Offer, you should nevertheless complete the relevant Form of Acceptance and deliver it to the Registrar together with the transfer receipt duly signed by yourself. Such action will be deemed to be an authority to the Offeror or its agent to collect from the Company or its share registrar on your behalf the relevant Share certificate when issued and to deliver such certificate to the Registrar and to authorize and instruct the Registrar to hold such certificate, subject to the terms of the Offer, as if it was delivered to the Registrar with the relevant Form of Acceptance.

If the Share certificate and/or transfer receipt and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect of any lost Share certificate) is/are not readily available and/or is/are lost and you wish to accept the Offer, the Form of Acceptance should nevertheless be completed and delivered to the Registrar and the relevant Share certificate and/or transfer receipt and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect of any lost Share certificate) should be forwarded to the Registrar as soon as possible thereafter.

No acknowledgement of receipt for any Form of Acceptance, Share certificate and/or transfer receipt and/or any other documents of title will be given.

2. TIMING OF PAYMENT AND RETURN OF SHARE CERTIFICATES

Cheques in respect of the consideration payable for the Shares tendered under the Offer will be posted within 10 days of the later of (i) the date on which the Offer becomes or is declared unconditional and (ii) the date of receipt of a duly completed Form of Acceptance, at the risk of the Accepting Shareholders.

If the Offer lapses, the Offeror must, as soon as possible but in any event within 10 days thereof, post the Share certificates lodged with the Forms of Acceptance to, or make such Share certificates available for collection by, the Accepting Shareholders who accepted the Offer.

3. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offeror reserves the right to revise or extend the Offer after the despatch of this Offer Document.
- (b) Unless the Offer has previously been extended or revised or has previously become or been declared unconditional, the latest time for acceptance of the Offer will be at 4:00 p.m. on Tuesday 23rd December, 2003.
- (c) If the Offer becomes or is declared unconditional in all respects, it will remain open for acceptance for not less than 14 days from the date on which the Offeror announces that the Offer has become unconditional in all respects. If the Offer has become unconditional and it is stated that it will remain open until further notice, then not less than 14 days' notice will be given in writing and by way of announcement prior to the closing of the Offer.
- (d) The Offer shall not be capable of
 - (i) becoming unconditional after 4:00 p.m. on Monday, 2nd February, 2004; or
 - (ii) being kept open after 4:00 p.m. Monday, 2nd February, 2004, provided that the Offeror reserves the right, with the permission of the Executive under the Code, to extend the Offer to a later time and/or date.

- (e) Although no such revision is envisaged, if the Offer is revised (either in its terms and conditions or in the value or nature of the consideration offered or otherwise) the benefit of the revised Offer will be made available to any Accepting Shareholders already accepted the Offer on the date of such revision. A revised offer must be kept open for at least 14 days following the date on which the revised Offer Document is posted.

The acceptance by or on behalf of an Accepting Shareholders of the Offer in its original form shall be treated as an acceptance of the Offer as so revised. It shall also constitute an authority to any director of the Offeror or of Yu Ming as agent of the Accepting Shareholders:

- (i) to accept any such revised Offer on behalf of such Accepting Shareholders;
- (ii) to execute on behalf of and in the name of such Accepting Shareholders all such further documents (if any) as may be required to give effect to such acceptances.

In making any such election and/or acceptance, such agent shall take into account the nature of any previous acceptances made by or on behalf of the Accepting Shareholders and such other facts or matters as he may reasonably consider relevant.

- (f) The authorities conferred by paragraphs (e)(i) to (ii) (inclusive) and any acceptance of the revised Offer shall be irrevocable unless and until the Accepting Shareholders becomes entitled to withdraw his acceptance under the paragraph headed “Right of Withdrawal” below and duly does so.

4. ANNOUNCEMENTS

- (a) By 6:00 p.m. on the Closing Date the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension, expiry or unconditionality of the Offer. The Offeror must publish a teletext announcement through the Stock Exchange by 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional. A draft of such teletext announcement must be submitted to the Executive and the Stock Exchange by 6:00 p.m. for clearance. Such announcement must be republished in accordance with paragraph (c) below on the next business day thereafter and must state the total number of Shares and rights over Shares:
 - (i) for which acceptances of the Offer have been received;
 - (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer period;
 - (iii) acquired or agreed to be acquired during the Offer period by the Offeror or any persons acting in concert with it;

- (b) In computing the number of Shares represented by acceptances, there may be included or excluded for announcement purposes acceptances which are not in all respects in order or are subject to verification; and
- (c) All announcements in relation to the Offer, in respect of which the Executive has confirmed that he has no further comments, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

5. RIGHT OF WITHDRAWAL

Pursuant to the Code, an Accepting Shareholder is entitled to withdraw his acceptance after 21 days from Tuesday, 23rd December, 2003, being the first closing date of the Offer, if the Offer has not by then become unconditional as to acceptances. This entitlement to withdraw is exercisable until such time as the Offer becomes or is declared unconditional as to acceptances.

6. GENERAL

- (a) All communications, notices, Forms of Acceptance, form of transfer, certificates, transfer receipts and other documents of title or of indemnity or of any other nature to be delivered by or sent to or from Shareholders will be delivered by or sent to or from them, or their designated agents, at their risk, and neither of the Offeror or Yu Ming accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
- (b) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Offer are sold by such person or persons free from all liens, charges, claims, equities, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the rights to receive dividends if any, declared, made or paid after the date on which the Offer is made.
- (c) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of the Shares in respect of which it is indicated in the Form of Acceptance are the aggregate number of the Shares held by such nominee for such beneficial owners who are accepting the Offer.
- (d) The provisions set out in the Form of Acceptance form part of the terms of the Offer.
- (e) The accidental omission to despatch this Offer Document and/or the Form of Acceptance or either of them to any person to whom the Offer is made shall not invalidate the Offer in any way.
- (f) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

- (g) References to the Offer in this Offer Document and in the Form of Acceptance shall include any extension and/or revision thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.
- (h) Due execution of a Form of Acceptance will constitute an authority to Yu Ming or its respective agents to complete and execute on behalf of the person accepting the Offer, the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such other person or persons as the Offeror shall direct, the Shares which are the subject of such acceptance.
- (i) The making of the Offer to certain persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions. Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person outside Hong Kong wishing to accept the Offer to satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and payment of any transfer or other taxes due in respect of such jurisdiction.
- (j) The Offer is made in accordance with the Code.
- (k) The English text of this Offer Document and of the Form of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

1. SUMMARY OF 3 YEARS CONSOLIDATED ACCOUNTS

The following is a summary of the unqualified audited consolidated profit and loss accounts and the audited consolidated balance sheets of the Group for the three years ended 31st December, 2002 as extracted from the relevant annual reports of the Groups.

Consolidated profit and loss account

	For the year ended		
	31st December		
	2002	2001	2000
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	16,855,333	18,482,238	33,781,503
Operating profit/(loss)	5,304,771	(64,447,621)	(363,501,000)
Financial expenses	(380,558)	(663,142)	(102,248)
Share of profits less losses of associated companies	14,110,168	(12,971,689)	8,859,850
Profit/(loss) before taxation	19,034,381	(78,082,452)	(354,743,398)
Taxation	(705,370)	(5,045,043)	(288,018)
Profit/(loss) after taxation	18,329,011	(83,127,495)	(355,031,416)
Minority interests	50,594	(3,515,242)	3,515,242
Extraordinary items	-	-	-
Exceptional items	-	-	-
Profit/(loss) attributable to shareholders	18,379,605	(86,642,737)	(351,516,174)
Dividends	67,646,880	67,646,880	67,646,880
Earnings per share (basic)	1.09 cents	(5.12 cents)	(20.79 cents)
Earnings per share (diluted)	N/A	N/A	(20.64 cents)
Dividend per share	4 cents	4 cents	4 cents

Consolidated balance sheet

	As at 31st December		
	2002 <i>HK\$</i>	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Intangible assets	–	–	1,600,000
Fixed assets	–	392,097	560,138
Associated companies	97,744,350	86,852,241	93,784,391
Investment securities	162,576,838	149,105,752	225,374,165
Debt securities	32,268,203	71,709,201	84,172,484
Net current assets	330,883,163	345,862,127	358,963,034
Employment of funds	623,472,554	653,921,418	764,454,212
Representing:–			
Share capital	169,117,199	169,117,199	169,117,199
Reserves	454,353,824	484,667,937	598,818,871
Shareholders' fund	623,471,023	653,785,136	767,936,070
Minority interests	1,531	136,282	(3,481,858)
Funds employed	623,472,554	653,921,418	764,454,212

2. AUDITED ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER, 2002

Set out below are the audited consolidated accounts of the Group as at 31st December, 2002 together with the relevant notes as extracted from the Group's 2002 annual report.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 2002

	<i>Note</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
TURNOVER	2		
Interest income from debt securities		8,457,644	7,839,670
Bank interest income		7,711,270	10,163,019
Dividend income		686,419	479,549
		<u>16,855,333</u>	<u>18,482,238</u>
SUNDRY INCOME			
Loan interest income		2,242,314	–
Exchange gain/(loss)		29,755,357	(1,098,282)
Other sundry income		4,100,425	223,345
		<u>36,098,096</u>	<u>(874,937)</u>
		<u>52,953,429</u>	<u>17,607,301</u>
EXPENSES			
Management fee expenses	23	10,768,209	12,668,639
Other operating expenses		5,990,369	20,084,511
		<u>16,758,578</u>	<u>32,753,150</u>
		<u>36,194,851</u>	<u>(15,145,849)</u>

	<i>Note</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
PROFIT/(LOSS) ON DISPOSAL OF INVESTMENT SECURITIES		38,613,890	(10,655,369)
PROFIT ON DISPOSAL OF DEBT SECURITIES		6,862,147	19,817,983
IMPAIRMENT OF INVESTMENT SECURITIES		(41,172,546)	(34,770,807)
IMPAIRMENT OF ASSOCIATED COMPANIES		(3,698,481)	(12,719,560)
IMPAIRMENT OF INTANGIBLE ASSETS		–	(4,000,000)
PROVISION FOR BAD DEBT		(6,200,000)	–
UNREALIZED LOSSES ON DEBT SECURITIES		(23,835,790)	(6,284,269)
UNREALIZED LOSSES ON OTHER INVESTMENTS		(1,459,300)	(689,750)
		<hr/>	<hr/>
OPERATING PROFIT/(LOSS)	3	5,304,771	(64,447,621)
FINANCIAL EXPENSES		(380,558)	(663,142)
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES		14,110,168	(12,971,689)
		<hr/>	<hr/>
PROFIT/(LOSS) BEFORE TAXATION		19,034,381	(78,082,452)
TAXATION	5		
Company & subsidiaries		(648,133)	(5,036,439)
Associated companies		(57,237)	(8,604)
		<hr/>	<hr/>
PROFIT/(LOSS) AFTER TAXATION		18,329,011	(83,127,495)
MINORITY INTERESTS		50,594	(3,515,242)
		<hr/>	<hr/>
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	6 & 18	18,379,605	(86,642,737)
		<hr/>	<hr/>
DIVIDENDS	7	67,646,880	67,646,880
		<hr/> <hr/>	<hr/> <hr/>
EARNINGS/(LOSS) PER SHARE	8		
– Basic		1.09 cents	(5.12 cents)
– Diluted		N/A	N/A
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET

As at 31st December, 2002

	<i>Note</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
FIXED ASSETS	9	–	392,097
ASSOCIATED COMPANIES	11	97,744,350	86,852,241
INVESTMENT SECURITIES	12	162,576,838	149,105,752
DEBT SECURITIES	13	32,268,203	71,709,201
CURRENT ASSETS			
Other investments listed in Hong Kong, at market value		7,216,200	8,675,500
Trade and other receivables	14	40,889,366	53,147,487
Pledged bank fixed deposit		–	22,337,970
Fixed deposits at banks		298,276,480	330,655,292
Bank balances and cash		4,142,396	1,183,250
		<u>350,524,442</u>	<u>415,999,499</u>
CURRENT LIABILITIES			
Trade and other payables	15	14,511,194	64,990,599
Amounts due to a related company	16	266,983	283,671
Taxation payable		4,863,102	4,863,102
		<u>19,641,279</u>	<u>70,137,372</u>
NET CURRENT ASSETS		<u>330,883,163</u>	<u>345,862,127</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>623,472,554</u>	<u>653,921,418</u>
Financed by:			
SHARE CAPITAL	17	169,117,199	169,117,199
RESERVES	18	347,525,187	328,572,025
RETAINED EARNINGS	18	73,005,197	122,272,472
PROPOSED FINAL DIVIDEND	18	33,823,440	33,823,440
		<u>623,471,023</u>	<u>653,785,136</u>
SHAREHOLDERS' FUNDS		<u>623,471,023</u>	<u>653,785,136</u>
MINORITY INTERESTS		1,531	136,282
		<u>623,472,554</u>	<u>653,921,418</u>
NET ASSET VALUE PER SHARE	19	<u>0.37</u>	<u>0.39</u>

BALANCE SHEET*As at 31st December, 2002*

	<i>Note</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
SUBSIDIARIES	<i>10</i>	315,642,293	335,091,757
INVESTMENT SECURITIES		446,578	–
CURRENT ASSETS			
Other investments listed in Hong Kong, at market value		4,666,200	6,363,000
Trade and other receivables	<i>14</i>	37,108,733	44,827,028
Fixed deposits at banks		202,024,563	288,349,648
Bank balances and cash		3,071,547	193,984
		<u>246,871,043</u>	<u>339,733,660</u>
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	378,352	384,192
Amounts due to a related company	<i>16</i>	266,983	283,671
		<u>645,335</u>	<u>667,863</u>
NET CURRENT ASSETS		<u>246,225,708</u>	<u>339,065,797</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>562,314,579</u>	<u>674,157,554</u>
Financed by:			
SHARE CAPITAL	<i>17</i>	169,117,199	169,117,199
RESERVES	<i>18</i>	315,613,662	315,613,662
RETAINED EARNINGS	<i>18</i>	43,760,278	155,603,253
PROPOSED FINAL DIVIDEND	<i>18</i>	33,823,440	33,823,440
SHAREHOLDERS' FUNDS		<u>562,314,579</u>	<u>674,157,554</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31st December, 2002*

	<i>Note</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Total equity as at 1st January		653,785,136	767,936,070
Net gains not recognised in the profit and loss account			
– Net surplus on revaluation of investment securities	<i>18</i>	18,953,162	40,138,683
Profit/(loss) attributable to shareholders	<i>18</i>	18,379,605	(86,642,737)
Dividends	<i>18</i>	(67,646,880)	(67,646,880)
		<u>623,471,023</u>	<u>653,785,136</u>
Total equity as at 31st December		<u>623,471,023</u>	<u>653,785,136</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31st December, 2002*

	<i>Note</i>	2002 <i>HK\$</i>	2001 Restated <i>HK\$</i>
NET CASH INFLOW/(OUTFLOW)			
GENERATED FROM OPERATIONS	20	27,335,258	(37,418,080)
Loan interest received		2,148,067	–
Loan interest paid		(393,133)	(682,849)
Hong Kong profits tax refund/(paid)		30,093	(2,197,525)
		<u> </u>	<u> </u>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		<u>29,120,285</u>	<u>(40,298,454)</u>
INVESTING ACTIVITIES			
Purchase of debt securities		(22,705,000)	(81,158,205)
Sale/redemption of debt securities		45,172,355	111,905,682
Sale of investment securities		4,696,812	244,305,748
Investments in associated companies		–	(12,258,884)
Increase in amount due from associated companies		(5 37,659)	(6,378,819)
Purchase of investment securities		(39,773,392)	(39,773,392)
Investments in intangible assets		–	(2,400,000)
Decrease/(increase) in pledged bank fixed deposit		22,337,970	(22,337,970)
		<u> </u>	<u> </u>
NET CASH INFLOW FROM INVESTMENT ACTIVITIES		<u>9,191,086</u>	<u>58,362,430</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		<u>38,311,371</u>	<u>18,063,976</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31st December, 2002*

	2002	2001
		Restated
<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
FINANCING ACTIVITIES		
Amount due (from)/to a minority shareholder	(84,157)	102,898
Dividends paid	(67,646,880)	(67,646,880)
	<u>(67,731,037)</u>	<u>(67,543,982)</u>
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(67,731,037)	(67,543,982)
DECREASE IN CASH AND CASH EQUIVALENTS	(29,419,666)	(49,480,006)
CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY	331,838,542	381,318,548
	<u>331,838,542</u>	<u>381,318,548</u>
CASH AND CASH EQUIVALENTS AS AT 31ST DECEMBER	302,418,876	331,838,542
	<u><u>302,418,876</u></u>	<u><u>331,838,542</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Non pledged fixed deposits at banks with original maturity less than three months	298,276,480	330,655,292
Bank balances and cash	4,142,396	1,183,250
	<u>4,142,396</u>	<u>1,183,250</u>
	<u><u>302,418,876</u></u>	<u><u>331,838,542</u></u>

*Notes:***1. Principal accounting policies**

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment securities, debt securities and other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The effect of adopting these new standards is set out in the accounting policies below.

(b) *Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) *Investments*

- (i) An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

- (ii) Investment securities including those listed and unlisted securities which are held for non-trading purpose are stated at fair value and directors' valuation respectively at the balance sheet date. Changes in the fair value or directors' valuation and earlier valuations of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

- (iii) Other investments and debt securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments and debt securities are recognised in the profit and loss account. Profits or losses on disposal of other investments and debt securities, representing difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(d) *Fixed assets*

Fixed assets, comprising machinery and equipment, are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives. The annual rate used for machinery and equipment is 30% on a reducing balance basis.

(e) *Intangibles*

- (i) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

- (ii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(f) *Trade and other receivables*

Provision is made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision.

(g) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(h) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(i) *Deferred taxation*

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(j) *Revenue recognition*

Dividend income is recognised when the right to receive payment is established. Bank interest income and interest income from debt securities are recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(k) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(l) *Borrowing costs*

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2. Turnover

The principal activity of the Company and its subsidiaries is the holding of listed and unlisted securities.

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Interest income from debt securities	8,457,644	7,839,670
Bank interest income	7,711,270	10,163,019
Dividend income from		
– listed investments	479,651	337,090
– unlisted investments	206,768	142,459
	<u>16,855,333</u>	<u>18,482,238</u>

The Group operates in a single business segment of investments holding.

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to operations outside Hong Kong.

3. Operating profit/(loss)

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Operating profit/(loss) is stated after charging/(crediting) the following:		
Technical consultancy fee	–	11,280,147
Staff cost (excluding directors' emoluments)	535,900	554,900
Depreciation and impairment of fixed assets	392,097	168,041
Auditors' remuneration	200,000	160,000
Net exchange (gain)/loss	(29,755,357)	1,098,282
	<u>(29,755,357)</u>	<u>1,098,282</u>

4. (a) Directors' emoluments

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Fees:		
– Executive directors	100,000	95,246
– Non-executive directors	80,000	80,000
Bonus	–	–
Other emoluments	–	–
	<u>180,000</u>	<u>175,246</u>

The above fees were paid to all directors, executive and non-executive, in respect of their length of service to the Group.

The emoluments of directors fell within the following band:

Emoluments band (HK\$)	Number of directors	
	2002	2001
nil – 1,000,000	9	9

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four directors whose emoluments are reflected in the analysis presented in 4(a). The emoluments payable to the only one (2001: one) employee during the year are as follows:

	2002	2001
	HK\$	HK\$
Basic salaries	483,600	483,600
Bonus	40,300	59,300
Retirement scheme contribution	12,000	12,000
	<u>535,900</u>	<u>554,900</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the year.

No deferred taxation has been provided as there are no significant timing differences arising between profit as computed for taxation purposes and profit as stated in the accounts.

6. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$44,196,095 (2001: loss attributable to shareholders of HK\$333,436,356).

7. Dividends

	2002	2001
	HK\$	HK\$
Interim, paid, of HK2 cents (2001: HK2 cents) per ordinary share	33,823,440	33,823,440
Final, proposed, of HK2 cents (2001: HK2 cents) per ordinary share (<i>Note</i>)	<u>33,823,440</u>	<u>33,823,440</u>
	<u>67,646,880</u>	<u>67,646,880</u>

Note: At a meeting held on 27th March, 2003, the directors declared a final dividend of HK2 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December, 2003.

8. Earnings/(loss) per share

The calculation of basic and diluted earnings/(loss) per share are based on the Group's profit attributable to shareholders of HK\$18,379,605 (2001: loss attributable to shareholders of HK\$86,642,737).

The basic earnings/(loss) per share is based on the number of ordinary shares in issue during the year amounting to 1,691,171,989 (2001: 1,691,171,989). The diluted earnings/ (loss) per share during the years ended 31st December, 2002 and 31st December, 2001 are not disclosed as the exercise of the share options outstanding at 31st December, 2002 and 31st December, 2001 would have no dilutive effect.

9. Fixed assets

	Group Machinery and equipment HK\$
COST	
At 1st January, 2002	800,197
At 31st December, 2002	800,197
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
At 1st January, 2002	408,100
Charge and impairment for the year	392,097
At 31st December, 2002	800,197
Net book value	
At 31st December, 2002	—
At 31st December, 2001	392,097

10. Subsidiaries

	Company	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	1,400,054	1,400,054
Amounts due from subsidiaries	949,019,417	926,343,240
Amounts due to subsidiaries	(141,993,892)	(147,868,251)
Impairment	(492,783,286)	(444,783,286)
	<u>315,642,293</u>	<u>335,091,757</u>

Amounts due from subsidiaries and amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the subsidiaries are as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Group's equity interest
Asia Vision Holdings Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Capital Sharp Investment Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Contana Investment Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Grand Fast Investments Limited	British Virgin Islands	Dormant	1 ordinary share of US\$1	100%
The Hong Kong Equity Guarantee Corporation Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Long Guest Limited	Hong Kong	In members' voluntary liquidation	2 ordinary shares of HK\$1 each	100%
Long Lead Investments Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Long Oceanic Development Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Long Rainbow Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Long Resources Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Long Scene Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Long Set Investments Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Longfine Investment Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Longjoy Development Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Longson Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Group's equity interest
Mark Light Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Mix Limited	Hong Kong	Investment holding	1,400,000 ordinary shares of HK\$1 each	100%
NetValue Limited** (Indirectly held)	Hong Kong	Dormant	Ordinary shares of HK\$1 each Preference shares of HK\$8,755 each	100% 100%
Odelon Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%
Odino Limited	Hong Kong	Dormant	2 ordinary shares of HK\$1 each	100%
Kickradio.com Limited*	Hong Kong	Internet radio broadcasting	13,125,000 ordinary shares of HK\$0.01 each	79%

All subsidiaries, except NetValue Limited, are held directly by the Company.

Netvalue Limited became a subsidiary of the Group during the year as disclosed in note 21 to the accounts

* *These subsidiaries are not audited by PricewaterhouseCoopers.*

11. Associated companies

	Group	
	2002 HK\$	2001 HK\$
Share of net liabilities	(1,645,439)	(15,698,370)
Loans to associated companies	138,028,135	137,490,476
Loans from an associated company	(220,305)	(220,305)
	<u>136,162,391</u>	<u>121,571,801</u>
Impairment	(38,418,041)	(34,719,560)
	<u>97,744,350</u>	<u>86,852,241</u>
Investments in unlisted associated companies, at cost (<i>Note</i>)	<u>11,127</u>	<u>42,910,628</u>

Note: NetValue Limited (“NetValue”) was an associated company of the Group at 1st January, 2002 and the Group owned 34.99% and 100% of ordinary shares and preference shares of NetValue respectively. During the year, the Group acquired all the remaining ordinary shares of NetValue, which became a wholly-owned subsidiary of the Group.

The loans to/from associated companies are unsecured, interest free and have no fixed terms of repayment.

Details of the indirectly held associated companies are as follows:

Name	Place of incorporation	Principal activities /Place of business	Particulars of issued share capital	Group's effective interest
Honnex Development Limited*	Hong Kong	Property trading and letting	Ordinary shares of HK\$ 1 each	33.3%
China Power Investment Limited	British Virgin Islands	Dormant	Ordinary shares of US\$1 each	50%
Advance Super International Limited	Hong Kong	Dormant	Ordinary shares of HK\$1 each	50%
Long Vocation Investment Limited#	British Virgin Islands	Investment holding in Hong Kong	Ordinary shares of HK\$1 each	33.3%
J.J. Richardson (Holdings) Limited	Hong Kong	Dormant	Ordinary shares of HK\$1 each	33%

* *Honnex Development Limited (“Honnex”) New Viking Limited (“New Viking”) and Ocean Glorious Limited (“Ocean Glorious”) are related companies and have common directors and shareholders. Due to their group restructuring, all the equity interest and shareholder's loan of New Viking and Ocean Glorious were transferred to Honnex on 20th December, 2002. The principal activities of Honnex, New Viking and Ocean Glorious are trading and letting of shops and kiosks in Argyle Centre. Before the group restructuring, the Group owned 30% equity interest in each of Honnex, New Viking and Ocean Glorious.*

The activity of Long Vocation Investment Limited is the holding of Honnex.

The principal activities of Honnex are the trading and letting of shops and kiosks in Argyle Centre.

No dividend was received from Honnex during the year.

In accordance with the consolidated financial statements of Honnex for the year ended 31st December, 2002, particulars of Honnex are as follows:

	HK\$
Non-current assets	11,577,519
Current assets	708,622,942
Current liabilities	45,165,868
Non-current liabilities	725,843,706
Turnover	53,406,462
Profit after taxation	39,969,420

12. Investment securities

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Shares listed in Hong Kong, at market value	99,576,224	90,544,029
Unlisted shares, at directors' valuation	217,084	29,763,915
Other unlisted investments, at directors' valuation	62,783,530	28,797,808
	<u>162,576,838</u>	<u>149,105,752</u>

Details of investment securities are as follows:

Name	Balance at 1.1.2002 <i>HK\$</i>	Additions <i>HK\$</i>	Disposals <i>HK\$</i>	Surplus/ (Deficit) on revaluation <i>HK\$</i>	Balance at 31.12.2002 <i>HK\$</i>	% of total assets of the Group
Shares listed in Hong Kong						
Next Media Limited	27,040,000	-	-	19,500,000	46,540,000	7.24%
Lam Soon (Hong Kong) Limited	34,103,100	-	-	7,179,600	41,282,700	6.42%
e-New Media Company Limited	3,700,000	771,728	-	(849,728)	3,622,000	0.56%
New World China Land Limited	4,437,605	-	-	(2,147,801)	2,289,804	0.36%
South China Morning Post (Holdings) Limited	1,470,000	-	-	(495,000)	975,000	0.15%
City e-Solutions Limited	538,500	-	(538,500)	-	-	0.00%
Seapower Resources International Limited	27,000	-	-	(27,000)	-	0.00%
iAsia Technology Limited	18,553,212	-	-	(15,642,905)	2,910,307	0.45%
Guangdong Investment Limited	674,612	-	-	175,223	849,835	0.13%
Innovative International (Holdings) Limited	-	446,578	-	-	446,578	0.07%
Dan Form Holdings Company Limited	-	620,086	-	39,914	660,000	0.10%
	<u>90,544,029</u>	<u>1,838,392</u>	<u>(538,500)</u>	<u>7,732,303</u>	<u>99,576,224</u>	<u>15.48%</u>

Details of investment securities are as follows:

Name	Balance at 1.1.2002 HK\$	Additions HK\$	Disposals HK\$	Surplus/ (Deficit) on revaluation HK\$	Balance at 31.12.2002 HK\$	% of total assets of the Group
Unlisted shares						
BOC China Fund Limited	15,627,254	-	(4,082,923)	(11,327,252)	217,079	0.03%
Alpha Innovative Limited	14,136,656	-	-	(14,136,656)	-	0.00%
GH Water Supply (Holdings) Limited	1	-	-	-	1	0.00%
Guangdong Alliance Limited	1	-	-	-	1	0.00%
Hong Kong Property Co Limited	1	-	-	-	1	0.00%
E-Med Limited	1	-	-	-	1	0.00%
Convergence Technologies Limited	1	-	-	-	1	0.00%
	<u>29,763,915</u>	<u>--</u>	<u>(4,082,923)</u>	<u>(25,463,908)</u>	<u>217,084</u>	<u>0.03%</u>
Other unlisted investments						
Yu Ming Matignon Trust 1	15,470,070	-	-	(1,241,398)	14,228,672	2.21%
Matignon Technologies FCPR	13,327,738	5,175,000	-	(3,500,000)	15,002,738	2.33%
Yu Ming High Yield Bond Trust	-	32,760,000	-	792,120	33,552,120	5.22%
	<u>28,797,808</u>	<u>37,935,000</u>	<u>-</u>	<u>(3,949,278)</u>	<u>62,783,530</u>	<u>9.76%</u>
Total investment securities	<u>149,105,752</u>	<u>39,773,392</u>	<u>(4,621,423)</u>	<u>(21,680,883)</u>	<u>162,576,838</u>	<u>25.27%</u>

Particulars of major investments in investment securities :

Next Media Limited (“Next”)

Next is engaged in the publication of newspaper, books and magazines; the sales of advertising space in newspaper, books and magazines; the provision of printing and reprographic services; the delivery of Internet content and the sales of advertising space on websites.

The Group currently holds 26,000,000 shares in Next, representing 2.1% interest in the issued share capital of Next. The cost of investment is approximately HK\$26 million. No dividend was received during the year. Based on the interim report of Next at 30th September, 2002, the net assets of Next were approximately HK\$3,219 million.

Lam Soon (Hong Kong) Limited (“Lam Soon”)

Lam Soon is principally engaged in the processing and trading of edible oils, flour products, food products, detergents and general goods.

The Group currently holds 17,949,000 shares in Lam Soon, representing 7.4% interest in the issued share capital of Lam Soon. The cost of investment less provision for impairment is approximately HK\$31 million. No dividend was received during the year. Based on the interim report of Lam Soon at 30th June, 2002, the net assets of Lam Soon were approximately HK\$1,009 million.

Yu Ming High Yield Bond Trust (“YMBT”)

The principal business activities of YMBT is to achieve medium term capital growth through investment primarily in a diversified portfolio of high yield debt instruments available on the secondary market, issued by companies registered and operating in countries with well-developed and enforced bankruptcy laws.

The Group holds 210 units in YMBT. The cost of investment is approximately US\$4.2 million. No dividend was received during the year. Based on the weekly report at 31st December, 2002, our share of net asset value of YMBT was approximately US\$4.3 million.

YMBT is managed by Yu Ming Matignon Management Limited (“YMML”). Certain directors of the Company are directors of YMML and have indirect equity interest in YMML.

Matignon Technologies FCPR (“Matignon Technologies”)

Matignon Technologies is a closed-end fund with an initial capital base of Euro 50 million. It aims at investing in recently set-up high technology companies in Europe, with particular emphasis on media and telecom, genetics and environment-focused companies. More than 50% of the portfolio will be invested in unlisted companies, at a start-up stage or early-financing stage. The balance will be invested in listed high-tech companies. The fund is managed by Matignon investment & Gestion. One of the directors of the Company is the managing director of Matignon Investissement & Gestion.

The Group currently holds 500 shares of class F and 86 shares of class G in Matignon Technologies representing 10% and 4.3% interest in that particular class of issued share capital of Matignon Technologies respectively. The total cost of investment will be approximately Euro 5 million of which Euro 2.75 million has been paid. No dividend was received during the year.

Yu Ming Matignon Trust 1 (“YMMT”)

The principal business activities of YMMT are to achieve short to medium term capital growth through equity and equity-related investments primarily in companies managed and operated from Hong Kong and/or the southern part of China.

The Group holds 125 units in YMMT. The cost of investment is approximately US\$2.5 million. No dividend was received during the year. Based on the weekly report at 31st December, 2002, our share of net asset value of YMMT was approximately US\$1.82 million.

YMMT is managed by YMML. Certain directors of the Company are directors of YMML and have indirect equity interest in YMML.

13. Debt securities

Group

Details of debt securities are as follows:

Name of issuer	Balance at 1.1.2002 HK\$	Additions HK\$	Maturity/ Disposals HK\$	Surplus/ (Deficit) on revaluation HK\$	Balance at 31.12.2002 HK\$	% of total assets of the Group
Convertible notes						
Lai Sun Development Company Limited	9,921,512	-	-	(6,357,781)	3,563,731	0.55%
800 Teleservices Holding Limited	-	4,000,000	-	-	4,000,000	0.62%
	9,921,512	4,000,000	-	(6,357,781)	7,563,731	1.17%
Bonds						
Crown Cork & Seal Co Inc.	16,062,542	-	(16,062,542)	-	-	0.00%
Guangdong Asset TR	1,462,594	-	(1,462,594)	-	-	0.00%
Guangdong Alliance Limited	689,184	-	(689,184)	-	-	0.00%
Xerox Corp	12,669,778	-	-	317,222	12,987,000	2.02%
Marconi Plc	9,013,703	-	-	(5,934,731)	3,078,972	0.48%
McDermott International Inc	7,059,000	-	(7,059,000)	-	-	0.00%
Federal – Mogul Corp	2,925,000	-	-	585,000	3,510,000	0.55%
Revlon, Inc.	3,276,000	-	(3,276,000)	-	-	0.00%
Koninklijke (Royal) KPN NV	3,910,888	-	(3,910,888)	-	-	0.00%
Polaroid Corp – 2006	3,198,000	-	-	(1,638,000)	1,560,000	0.24%
Polaroid Corp – 2002	1,521,000	-	-	(897,000)	624,000	0.10%
K-Mart	-	8,736,000	(4,446,000)	(3,159,000)	1,131,000	0.18%
KPNQwest BV	-	4,002,000	-	(4,002,000)	-	0.00%
Worldcom Inc.	-	4,563,000	-	(2,749,500)	1,813,500	0.28%
Asia Global Crossing Limited	-	1,404,000	(1,404,000)	-	-	0.00%
	61,787,689	18,705,000	(38,310,208)	(17,478,009)	24,704,472	3.85%
Total debt securities	71,709,201	22,705,000	(38,310,208)	(23,835,790)	32,268,203	5.02%

Particulars of major investments in debt securities:

Name of issuer	Principal activitie	Original cost of investment HK\$
Xerox Corp.	Developing, manufacturing and marketing a range of document processing products and services for use in offices around the world	12,538,800
800 Teleservices Holding Limited	Total solution provider	4,000,000
Lai Sun Development Company Limited	Property development, property investment and investment holding	19,058,863
Federal-Mogul Corp.	Manufacturing and distributing components for light trucks, automobiles, heavy duty trucks and industrial products	5,534,100
Marconi Plc	Specializing in the information technology and global communications	8,177,700

14. Trade and other receivables

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Trade receivables	–	–	–	–
Other receivables	40,889,366	53,147,487	37,108,733	44,827,028
	<u>40,889,366</u>	<u>53,147,487</u>	<u>37,108,733</u>	<u>44,827,028</u>

15. Trade and other payables

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Trade payables	–	–	–	–
Other payables	14,511,194	64,990,599	378,352	384,192
	<u>14,511,194</u>	<u>64,990,599</u>	<u>378,352</u>	<u>384,192</u>

16. Amounts due to a related company

Amounts due to a related company are unsecured, interest free and have no fixed terms of repayment.

17. Share capital

	2002 HK\$	2001 HK\$
<i>Authorised:</i>		
2,100,000,000 (2001: 2,100,000,000) ordinary shares of HK\$0.10 each	<u>210,000,000</u>	<u>210,000,000</u>
<i>Issued and fully paid:</i>		
1,691,171,989 (2001: 1,691,171,989) ordinary shares of HK\$0.10 each	<u>169,117,199</u>	<u>169,117,199</u>

At the Extraordinary General Meeting of the Company held on 18th April, 2000, the Share Option Scheme was approved and adopted. Options to subscribe for 167,000,000 ordinary shares of the Company were granted to selected directors in 2000. The consideration paid by each director for the options granted was HK\$1.00. The options can be exercised at an exercise price of HK\$0.3184 per ordinary share during a period of three years commencing from the date of acceptance.

No share options were granted, exercised, lapsed or cancelled under the Share Option Scheme during the year. Further details of the Share Option Scheme are set out under the heading "Share Options" in the Report of the Directors.

18. Reserves

(a) Group

	Share premium HK\$	Investment revaluation reserve HK\$	Capital redemption reserve HK\$	Retained earnings HK\$	Total HK\$
At 1st January, 2001	311,582,062	(27,180,320)	4,031,600	310,385,529	598,818,871
Net surplus on revaluation of investment securities	–	40,138,683	–	–	40,138,683
Loss attributable to shareholders	–	–	–	(86,642,737)	(86,642,737)
2000 Final dividend paid	–	–	–	(33,823,440)	(33,823,440)
2001 Interim dividend paid (Note 7)	–	–	–	(33,823,440)	(33,823,440)
At 31st December, 2001	<u>311,582,062</u>	<u>12,958,363</u>	<u>4,031,600</u>	<u>156,095,912</u>	<u>484,667,937</u>
Representing:					
2001 Final dividend proposed				33,823,440	
Other				122,272,472	
Retained earnings at 31st December, 2001				<u>156,095,912</u>	
Retained by:					
Company and subsidiaries	311,582,062	12,958,363	4,031,600	211,802,714	540,374,739
Associated companies	–	–	–	(55,706,802)	(55,706,802)
	<u>311,582,062</u>	<u>12,958,363</u>	<u>4,031,600</u>	<u>156,095,912</u>	<u>484,667,937</u>
At 1st January, 2002	311,582,062	12,958,363	4,031,600	156,095,912	484,667,937
Net surplus on revaluation of investment securities	–	18,953,162	–	–	18,953,162
Profit attributable to shareholders	–	–	–	18,379,605	18,379,605
2001 Final dividend paid (Note 7)	–	–	–	(33,823,440)	(33,823,440)
2002 Interim dividend paid (Note 7)	–	–	–	(33,823,440)	(33,823,440)
At 31st December, 2002	<u>311,582,062</u>	<u>31,911,525</u>	<u>4,031,600</u>	<u>106,828,637</u>	<u>454,353,824</u>
Representing:					
2002 Final dividend proposed				33,823,440	
Other				73,005,197	
Retained earnings at 31st December, 2002				<u>106,828,637</u>	
Retained by:					
Company and subsidiaries	311,582,062	31,911,525	4,031,600	148,482,508	496,007,695
Associated companies	–	–	–	(41,653,871)	(41,653,871)
	<u>311,582,062</u>	<u>31,911,525</u>	<u>4,031,600</u>	<u>106,828,637</u>	<u>454,353,824</u>

(b) Company

	Share premium HK\$	Capital redemption reserve HK\$	Retained earnings HK\$	Total HK\$
At 1st January, 2001	311,582,062	4,031,600	590,509,929	906,123,591
Loss attributable to shareholders	–	–	(333,436,356)	(333,436,356)
2000 Final dividend paid	–	–	(33,823,440)	(33,823,440)
2001 Interim dividend paid (Note 7)	–	–	(33,823,440)	(33,823,440)
	<u>311,582,062</u>	<u>4,031,600</u>	<u>189,426,693</u>	<u>505,040,355</u>
At 31st December, 2001	<u>311,582,062</u>	<u>4,031,600</u>	<u>189,426,693</u>	<u>505,040,355</u>
At 1st January, 2002	311,582,062	4,031,600	189,426,693	505,040,355
Loss attributable to shareholders	–	–	(44,196,095)	(44,196,095)
2001 Final dividend paid (Note 7)	–	–	(33,823,440)	(33,823,440)
2002 Interim dividend paid (Note 7)	–	–	(33,823,440)	(33,823,440)
	<u>311,582,062</u>	<u>4,031,600</u>	<u>77,583,718</u>	<u>393,197,380</u>
At 31st December, 2002	<u>311,582,062</u>	<u>4,031,600</u>	<u>77,583,718</u>	<u>393,197,380</u>
			2002	2001
			HK\$	HK\$
Representing:				
2002 (2001) Final dividend proposed			33,823,440	33,823,440
Other			43,760,278	155,603,253
			<u>77,583,718</u>	<u>189,426,693</u>
Retained earnings at 31st December			<u>77,583,718</u>	<u>189,426,693</u>

19. Net asset value per share

The calculation of net asset value per share is based on the net assets of HK\$623,471,023 (2001: HK\$653,785,136) and the 1,691,171,989 (2001: 1,691,171,989) ordinary shares in issue as at 31st December, 2002.

20. Note to the consolidated cash flow statement

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) generated from operations:

	2002	2001
	HK\$	Restated HK\$
Operating profit/(loss)	5,304,771	(64,447,621)
Depreciation and impairment of fixed assets	392,097	168,041
Impairment of investment securities	41,172,546	34,770,807
Impairment of associated companies	3,698,481	12,719,560
Impairment of intangible assets	–	4,000,000
Provision for bad debt	6,200,000	–
Loan interest income	(2,242,314)	–
(Profit)/loss on disposal of investment securities	(38,613,890)	10,655,369
Profit on disposal of debt securities	(6,862,147)	(19,817,983)
Unrealized losses on debt securities	23,835,790	6,284,269
Unrealized losses on other investments	1,459,300	689,750
Decrease/(increase) in trade and other receivables	5,474,142	(31,247,967)
(Decrease)/increase in accounts payable and accrued liabilities	(12,466,830)	8,916,692
Decrease in amounts due to a related company	(16,688)	(108,997)
	<u>27,335,258</u>	<u>(37,418,080)</u>
Net cash inflow/(outflow) generated from operations	<u>27,335,258</u>	<u>(37,418,080)</u>

21. Contingent liabilities

- (a) The Company has given a guarantee to a bank to secure 33 1/3 % of the outstanding indebtedness due by its associated companies, of which the Group controlled 33 1/3 % interest in each. The amount of outstanding indebtedness due by the associated companies to this bank as at 31st December, 2002 was approximately HK\$421 million (2001: HK\$452 million).
- (b) The Company has given a guarantee to a financial institution to secure the borrowing facilities available to a wholly-owned subsidiary in the amount not exceeding US\$15 million. There was no outstanding indebtedness at 31st December, 2002 (at 31st December, 2001: approximately US\$1,928,000).

Management anticipates that no material liabilities will arise from the above material guarantees given to the bank and the financial institution which arose in the ordinary course of business.

- (c) In September 2001, the Company, together with Chow Tai Fook Nominee Limited and Mr. Fung Wing Cheung, Tony together referred to as the “Plaintiffs”, issued a statement of claim against three independent third parties (the “Defendants”) for the refund of a deposit made to the Defendants and related damages as a result of a breach of terms in an offer (the “Offer”) relating to the sale and purchase of shares in Kowloon Development Company Limited. The deposit attributable to the Company amounts to approximately HK\$17 million and is included in “Trade and other receivable” on the consolidated balance sheet. Subsequently in October 2001, the Defendants served a counterclaim on the Plaintiffs for loss and damages as a result of the non-completion of the Offer. At this stage, the directors have not made any provision against the deposit and the counterclaim because they believe the Company have meritorious claims against the Defendants, however the directors and the Company’s legal advisor are unable to assess the outcome and the effect of the above legal proceedings on the Company.

Saved as disclosed above, the directors are not aware of any litigation or claims of material importance pending or threatened against the Company or any of its subsidiaries.

22. Commitments

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Capital commitments for investments in investment securities		
Authorised but not contracted for	<u>18,408,825</u>	<u>20,700,000</u>

23. Related party transactions

The Group had the following material transactions with its related companies during the year:

	Group	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Management fee expenses to a related company	<u>10,768,209</u>	<u>12,668,639</u>

Pursuant to the management agreement dated 5th March, 1997 (“Existing Investment Management Agreement”) between the Group and YMIM, in which Fung Wing Cheung, Tony and Fung Yiu Fai, Peter, jointly own 100% of the shares, YMIM agreed to assist the board of directors with the day-to-day management of the Group for a period of five years commencing 27th March, 1997. YMIM will be entitled to a management fee equal to 0.375% of the net asset value on each quarter date and an incentive fee equal to 20% of such amount (if any) by which the profit before tax for each financial year completed exceeds such amount as is equal to 6% of average monthly net asset value of the Group as shown by the audited accounts of the companies within the Group for each such financial year but adjusted so that the associated companies of the Group will not be equity accounted for the purpose of calculating such average monthly net asset value and consolidated profit before tax.

On 4th March, 2002, a supplemental agreement (“Supplemental Agreement”) was approved by independent shareholders to extend the expiry date of the Existing Investment Management Agreement to 31st March, 2007. Under the Supplemental Agreement, the management fee remains unchanged. Pursuant to the Supplemental Agreement, YMIM will not be entitled to the incentive fee if the Group reports an accumulated loss at the time of the incentive fee computation. Therefore, the incentive fee will be equivalent to 20% of the amount by which the audited consolidation profit before tax of each year ending 31st December (before adjusting for the incentive fee), and after offsetting the accumulated losses during the term of the Supplemental Agreement, if any, exceeds 6% of the average monthly net asset value for such calendar year.

24. Subsequent event

In 2000, the Group had fully written off the principal amount and accrued interest of a loan made to Tem Fat Hing Fung (Holdings) Limited (“Tem Fat”) in the aggregate amount of HK\$370,542,702.

In December 2002, Tem Fat’s restructuring scheme commenced.

In 2003, the Group received 15,429,551 shares of Tem Fat and cash of HK\$16,266,345 from the scheme administrator of Tem Fat on 28th February, 2003 and 3rd March, 2003 respectively. As the above distributions from Tem Fat’s scheme administrator were not informed and paid to the Group as at 31st December, 2002, the amounts were not reflected in the financial year 2002 and will be recognised as an income in the financial year 2003.

25. Approval of accounts

The accounts were approved by the board of directors on 27th March, 2003.

3. UNAUDITED ACCOUNTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2003

Set out below are the unaudited consolidated accounts of the Group as at 30th June, 2003 together with the relevant notes as extracted from the Group's 2003 interim report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June, 2003

		Unaudited	
		Six months ended	
		30th June,	
		2003	2002
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
TURNOVER	2		
Interest income from debt securities		1,922,216	4,685,812
Bank interest income		1,774,263	4,269,494
Dividend income		389,924	200,325
		4,086,403	9,155,631
SUNDRY INCOME			
Loan interest income		447,948	1,445,042
Exchange (loss)/gain		(393,160)	18,964,004
Other sundry income		2,388,231	79,133
		2,443,019	20,488,179
		6,529,422	29,643,810
EXPENSES			
Management fee expenses	13	4,521,984	5,820,537
Other operating expenses		4,821,063	2,413,190
		9,343,047	8,233,727
		(2,813,625)	21,410,083

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the six months ended 30th June, 2003*

	<i>Notes</i>	Unaudited	
		Six months ended	
		30th June,	
		2003	2002
		<i>HK\$</i>	<i>HK\$</i>
PROFIT ON DISPOSAL OF INVESTMENT SECURITIES		26,712,776	613,890
PROFIT ON DISPOSAL OF DEBT SECURITIES		12,845,387	6,347,976
IMPAIRMENT OF INVESTMENT SECURITIES		–	(7,000,000)
IMPAIRMENT OF ASSOCIATED COMPANIES		–	(3,389,915)
BAD DEBT RECOVERY/(PROVISION)		20,901,876	(6,200,000)
UNREALIZED PROFITS/(LOSSES) ON DEBT SECURITIES		12,829,046	(15,467,121)
UNREALIZED LOSSES ON OTHER INVESTMENTS		(686,800)	(41,250)
OPERATING PROFIT/(LOSS)	3	69,788,660	(3,726,337)
FINANCIAL EXPENSES		(38,843)	(351,566)
SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES		5,100,195	7,887,130
PROFIT BEFORE TAXATION		74,850,012	3,809,227
TAXATION	4		
Company & subsidiaries		–	–
Associated companies		–	(22,500)
PROFIT AFTER TAXATION		74,850,012	3,786,727
MINORITY INTERESTS		–	50,594
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>74,850,012</u>	<u>3,837,321</u>
INTERIM DIVIDEND	5	<u>–</u>	<u>33,823,440</u>
EARNINGS PER SHARE	6		
– basic		<u>4.43 cents</u>	<u>0.23 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30th June, 2003 and 31st December, 2002*

	<i>Notes</i>	Unaudited 30th June, 2003 HK\$	Audited 31st December, 2002 HK\$
ASSOCIATED COMPANIES		101,844,545	97,744,350
INVESTMENT SECURITIES	7	140,275,374	162,576,838
DEBT SECURITIES	8	91,575,588	32,268,203
CURRENT ASSETS			
Other investments listed in			
Hong Kong, at market value		3,979,400	7,216,200
Trade and other receivables	9	43,017,615	40,889,366
Fixed deposits at banks		299,532,920	298,276,480
Bank balances and cash		9,685,600	4,142,396
		<u>356,215,535</u>	<u>350,524,442</u>
CURRENT LIABILITIES			
Trade and other payables	10	10,812,397	14,511,194
Amounts due to a related company		511,498	266,983
Taxation payable		4,863,102	4,863,102
		<u>16,186,997</u>	<u>19,641,279</u>
NET CURRENT ASSETS		<u>340,028,538</u>	<u>330,883,163</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u><u>673,724,045</u></u>	<u><u>623,472,554</u></u>
Financed by:			
SHARE CAPITAL		169,117,199	169,117,199
RESERVES		356,751,637	347,525,187
RETAINED EARNINGS		147,855,209	73,005,197
PROPOSED INTERIM DIVIDEND	5	–	33,823,440
SHAREHOLDERS' FUNDS		<u>673,724,045</u>	<u>623,471,023</u>
MINORITY INTERESTS		–	1,531
		<u><u>673,724,045</u></u>	<u><u>623,472,554</u></u>
NET ASSET VALUE PER SHARE		<u><u>0.40</u></u>	<u><u>0.37</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th June, 2003*

	Unaudited	
	Six months ended	
	30th June,	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	13,712,877	25,055,162
NET CASH INFLOW/(OUTFLOW) FROM INVESTMENT ACTIVITIES	26,911,738	(35,199,096)
NET CASH USED IN FINANCING ACTIVITIES	(33,824,971)	(32,911,628)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,799,644	(43,055,562)
CASH AND CASH EQUIVALENTS AS AT 1ST JANUARY	302,418,876	331,838,542
CASH AND CASH EQUIVALENTS AS AT 30TH JUNE	309,218,520	288,782,980
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Non pledged fixed deposits at banks with original maturity less than three months	299,532,920	287,725,521
Bank balances and cash	9,685,600	1,057,459
	<u>309,218,520</u>	<u>288,782,980</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2003

	Unaudited					Total HK\$
	Share capital HK\$	Share premium HK\$	Investment revaluation reserve HK\$	Capital redemption reserve HK\$	Retained earnings HK\$	
As at 1st January, 2003	169,117,199	311,582,062	31,911,525	4,031,600	106,828,637	623,471,023
Net surplus on revaluation of investment securities	-	-	9,226,450	-	-	9,226,450
Profit attributable to shareholders	-	-	-	-	74,850,012	74,850,012
Dividend paid	-	-	-	-	(33,823,440)	(33,823,440)
As at 30th June, 2003	<u>169,117,199</u>	<u>311,582,062</u>	<u>41,137,975</u>	<u>4,031,600</u>	<u>147,855,209</u>	<u>673,724,045</u>
As at 1st January, 2002	169,117,199	311,582,062	12,958,363	4,031,600	156,095,912	653,785,136
Net surplus on revaluation of investment securities	-	-	22,527,109	-	-	22,527,109
Profit attributable to shareholders	-	-	-	-	3,837,321	3,837,321
Dividend paid	-	-	-	-	(33,823,440)	(33,823,440)
As at 30th June, 2002	<u>169,117,199</u>	<u>311,582,062</u>	<u>35,485,472</u>	<u>4,031,600</u>	<u>126,109,793</u>	<u>646,326,126</u>

Notes:

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December, 2002 except that the Group has changed certain of its accounting policies following its adoption of SSAP 12 “Income Taxes” issued by HKSA which is effective for accounting periods commencing 1st January, 2003.

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profits as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy.

The effect of the above change in accounting policy is not material and accordingly comparatives are not restated.

2. Turnover

The principal activity of the Company and its subsidiaries is the holding of listed and unlisted securities.

	Unaudited	
	Six months ended 30th June,	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Interest income from debt securities	1,922,216	4,685,812
Bank interest income	1,774,263	4,269,494
Dividend income		
– from listed investments	107,600	85,550
– from unlisted investments	282,324	114,775
	4,086,403	9,155,631
	4,086,403	9,155,631

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to operations outside Hong Kong.

3. Operating profit/(loss)

	Unaudited	
	Six months ended 30th June,	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Operating profit/(loss) is stated after (crediting)/charging the following:		
Staff cost (excluding directors' emoluments)	231,332	255,800
Exchange loss/(gain)	393,160	(18,964,004)
	624,492	(18,708,204)
	624,492	(18,708,204)

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the period (2002: 16%).

No deferred taxation has been provided as there are no significant temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit.

5. Dividend

Unaudited	
Six months ended 30th June,	
2003	2002
<i>HK\$</i>	<i>HK\$</i>

The directors have resolved not to declare
an interim dividend for the period
(2002: HK2 cents per share)

	-	33,823,440
	<u> </u>	<u> </u>

Notes:

- (a) At a meeting held on 27th March, 2003 the directors proposed a final dividend of HK2 cents per ordinary share for the year ended 31st December, 2002, which was paid on 30th May, 2003 and has been reflected as an appropriation of retained earnings for the six months ended 30th June, 2003.
- (b) At a meeting held on 3rd September, 2003 the directors have resolved not to declare an interim dividend for the period.

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$74,850,012 (2002: HK\$3,837,321) and the number of ordinary shares in issue during the period amounting to 1,691,171,989 (2002: 1,691,171,989).

For the period ended 30th June, 2002, the diluted earnings per share was not disclosed as the exercise of the share options outstanding would have no dilutive effect.

For the period ended 30th June, 2003, there was no diluting effect on earnings per share as the share options expired in May 2003.

7. Investment securities

	Unaudited	Audited
	30th June,	31st December,
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Shares listed in Hong Kong	65,849,787	99,576,224
Unlisted shares	5	217,084
Unlisted investments	74,425,582	62,783,530
	<u> </u>	<u> </u>
	140,275,374	162,576,838
	<u> </u>	<u> </u>

8. Debt securities

	Unaudited 30th June, 2003 <i>HK\$</i>	Audited 31st December, 2002 <i>HK\$</i>
Convertible notes	4,000,000	7,563,731
Bonds	87,575,588	24,704,472
	<u>91,575,588</u>	<u>32,268,203</u>

9. Trade and other receivables

	Unaudited 30th June, 2003 <i>HK\$</i>	Audited 31st December, 2002 <i>HK\$</i>
Trade receivables	–	–
Other receivables	43,017,615	40,889,366
	<u>43,017,615</u>	<u>40,889,366</u>

10. Trade and other payables

	Unaudited 30th June, 2003 <i>HK\$</i>	Audited 31st December, 2002 <i>HK\$</i>
Trade payables	–	–
Other payables	10,812,397	14,511,194
	<u>10,812,397</u>	<u>14,511,194</u>

11. Contingent liabilities

- (a) The Company has given a guarantee to a bank to secure 33 $\frac{1}{3}$ % of the outstanding indebtedness due by its associated companies, of which the Group controlled 33 $\frac{1}{3}$ % interest in each. The amount of outstanding indebtedness due by the associated companies to this bank as at 30th June, 2003 was approximately HK\$408 million (at 31st December, 2002: approximately HK\$421 million).
- (b) The Company has given a guarantee to a financial institution to secure borrowing facilities available to a wholly-owned subsidiary in the amount not exceeding US\$15 million. There was no outstanding indebtedness at 30th June, 2003 and 31st December, 2002.

- (c) In September 2001, the Company, together with Chow Tai Fook Nominee Limited and Fung Wing Cheung, Tony together referred to as the “Plaintiffs”, issued a statement of claim against three independent third parties (the “Defendants”) for the refund of a deposit made to the Defendants and related damages as a result of a breach of terms in an offer (the “Offer”) relating to the sale and purchase of shares in Kowloon Development Company Limited. The deposit attributable to the Company amounts to approximately HK\$17 million and is included in “Trade and other receivables” on the consolidated balance sheet. Subsequently, in October 2001, the Defendants served a counterclaim on the Plaintiffs for loss and damages as a result of the non-completion of the Offer. At this stage, the directors have not made any provision against the deposit and the counterclaim because they believe the Company have meritorious claims against the Defendants, however the directors and the Company’s legal advisor are unable to assess the outcome and the effect of the above legal proceedings on the Company.

Save as disclosed above, the directors are not aware of any litigation or claims of material importance pending or threatened against the Company or any of its subsidiaries.

12. Commitments

Capital commitments for investments in investment securities

	Unaudited 30th June, 2003 <i>HK\$</i>	Audited 31st December, 2002 <i>HK\$</i>
Authorised but not contracted for	<u>20,199,150</u>	<u>18,408,825</u>

13. Related party transactions

The Group had the following material transactions with its related company during the period:

	Unaudited	
	Six months ended 30th June, 2003 <i>HK\$</i>	2002 <i>HK\$</i>
Management fee expenses to a related company	<u>4,521,984</u>	<u>5,820,537</u>

Pursuant to the management agreement dated 5th March, 1997 (“Existing Investment Management Agreement”) between the Group and Yu Ming Investment Management Limited (“YMIM”), in which Fung Wing Cheung, Tony and Fung Yiu Fai, Peter, jointly own 100% of the shares, YMIM agreed to assist the board of directors with the day-to-day management of the Group for a period of five years commencing 27th March, 1997. YMIM will be entitled to a management fee equal to 0.375% of the net asset value on each quarter date and an incentive fee equal to 20% of such amount (if any) by which the profit before tax for each financial year completed exceeds such amount as is equal to 6% of average monthly net asset value of the Group as shown by the audited accounts of the companies within the Group for each such financial year but adjusted so that the associated companies of the Group will not be equity accounted for the purpose of calculating such average monthly net asset value and consolidated profit before tax.

On 4th March, 2002, a supplemental agreement (“Supplemental Agreement”) was approved by independent shareholders to extend the expiry date of the Existing Investment Management Agreement to 31st March, 2007. Under the Supplemental Agreement, the management fee remains unchanged. Pursuant to the Supplemental Agreement, YMIM will not be entitled to the incentive fee if the Group reports an accumulated loss at the time of the incentive fee computation. Therefore, the incentive fee will be equivalent to 20% of the amount by which the audited consolidation profit before tax of each year ending 31st December (before adjusting for the incentive fee), and after offsetting the accumulated losses during the term of the Supplemental Agreement, if any, exceeds 6% of the average monthly net asset value for such calendar year.

4. INDEBTEDNESS

As at the close of business on 31st October, 2003, being the latest practicable date for the purpose of ascertaining certain financial information relating to this indebtedness statement prior to the printing of this Offer Document, the Group had HK\$66,065,656 outstanding loans from financial institutions, HK\$123,948,551 outstanding letter of credits, and HK\$373,161,217 outstanding guarantees, and a capital commitment of HK\$11,248,750. Save as disclosed in this paragraph, the Group did not have any outstanding mortgages, charges, debentures, loan capital, bank loans or overdrafts or other similar indebtedness, liabilities under acceptances or acceptance credits or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31st October, 2003.

5. MATERIAL CHANGES

Save as disclosed in the 2003 interim report of the Group, and the monthly net asset value of the Group as at 31st July, 31st August, 30th September and 31st October, 2003 published by the Company, the Directors are not aware of any material changes in the financial or trading position or prospect of the Group since 31st December, 2002, the date to which the latest audited consolidated accounts of the Group were made up.

1. RESPONSIBILITY

- (a) The issue of this Offer Document has been approved by the sole director of the Offeror, Mr. Tony Fung Wing Cheung.
- (b) This Offer Document includes particulars given in compliance with the Code for the purpose of giving information with regard to the Offeror and the Offer.
- (c) The sole director of the Offeror, Mr. Tony Fung Wing Cheung, accepts full responsibility for the accuracy of the information contained in this Offer Document other than those relating to the Group), and confirm, having made all reasonable enquiries, that, to the best of his knowledge, opinions expressed in this Offer Document other than those relating to the Group), have been arrived at after due and careful consideration and there are no other facts not contained in this Offer Document the omission of which would make any statements in this Offer Document misleading.
- (d) The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Offer Document (other than those contained in the letter from Yu Ming, and those relating to the Offeror), and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in this Offer Document (other than those contained in the letter from Yu Ming and those relating to the Offeror), have been arrived at after due and careful consideration and there are no other facts not contained in this Offer Document the omission of which would make any statements in this Offer Document misleading.

2. CORPORATE INFORMATION OF THE OFFEROR

The Offeror was incorporated in the British Virgin Islands with limited liability on 12th July, 1995. The sole director of the Offeror is Mr. Tony Fung Wing Cheung. The registered office and the principal place of business of the Offeror is at P.O. Box 3149 Pasea Estate, Road Town, Tortola, British Virgin Islands and Suite 51, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong respectively. As at the Latest Practicable Date, the Offeror was beneficially and wholly owned by Oyster Services Limited, the trustee of Oyster Unit Trust, the ultimate beneficiaries of which are, inter alia, children of Mr. Tony Fung Wing Cheung.

3. AUTHORISED AND ISSUED SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>2,100,000,000 Shares</u>	<u>210,000,000</u>
<i>Issued and fully paid:</i>	
<u>1,691,171,989 Shares</u>	<u>169,117,199</u>

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. There has been no change in the authorised and issued share capital of the Company since the last financial year ended 31st December, 2002.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants or other securities carrying rights of conversion into or exchange or subscription for any Shares.

4. DISCLOSURE OF INTERESTS AND DEALINGS

- (a) As at the Latest Practicable Date, the Offeror and/or parties acting in concert with it had interest in 691,902,258 Shares representing 40.91% of the issued share capital of the Company.
- (b) As at the Latest Practicable Date, Mr. Peter Fung Yiu Fai, a concert party with the Offeror, was interested in 6,500,000 Shares representing 0.38% of the issued share capital of the Company.
- (c) Save for Mr. Tony Fung Wing Cheung, Mr. Peter Fung Yiu Fai, Mr. Fabrice Jacob, Mr. Peter Lee Yip Wah, Mr. Albert Ho, who are Directors, none of the Company, its subsidiaries or its Directors had any interests in the Company as at the Latest Practicable Date. Save for Mr. Albert Ho (*Note 1*) and Mr. Tony Fung Wing Cheung, whose acquisition through the Offeror have been disclosed in page 9, none of the Company, its subsidiaries or its Directors had dealt in Share during the period beginning 6 months prior to 4th November, 2003 and ending on the Latest Practicable Date.

Note 1: Detail of Mr. Albert Ho's acquisition on 5th September, 2003

Number of Shares	Acquisition price
100,000	HK\$0.31
100,000	HK\$0.30

- (d) As at the Latest Practicable Date, save for Mr. Tony Fung Wing Cheung, whose interests in the Offeror is disclosed in page 10 of the Offer Document, and Mr. Peter Fung Yiu Fai, whose financial resources may be required by the Offeror to satisfied the Offer in full, none of the Company, its subsidiaries or its Directors had any interests in the Offeror and none of them has dealt in the shares of the Offeror during the period beginning six months prior to 4th November, 2003 and ending on the Latest Practicable Date.

- (e) As at the Latest Practicable Date, none of the subsidiaries of the Company, pension fund of the Company or any of its subsidiaries, or advisers to the Company as specified in class (2) of the definition of associate under the Code had any shareholdings in the Company. For the period beginning 6 months prior to 4th November, 2003 and ending on the Latest Practicable Date, none of the parties referred to in this paragraph had dealt in the Shares.
- (f) As at the Latest Practicable Date, the sole director of the Offeror (including his spouse, children under the age of 18, related trusts and companies controlled by any of them) are interested in 682,674,258 Shares representing 40.37% of the issued shares capital of the Company.
- (g) The Offeror (including its sole director, his spouse, children under the age of 18, related trusts and companies controlled by any of them) dealt in 97,821,000 Shares on 3rd October, 2003 through the Acquisition, during the period commencing 6 months prior to 4th November, 2003 and ending on the Latest Practicable Date. Saved as disclosed in this paragraph, the Offeror had not dealt in the Shares for the period beginning 6 months prior to 4th November, 2003.
- (h) As at the Latest Practicable Date, Yu Ming had no interest in any Shares and has never dealt in any Shares during the period commencing 6 months prior to 4th November, 2003 and ending on the Latest Practicable Date.
- (i) As at the Latest Practicable Date, Mr. Warren Lee Wa Lun, a concert party of the Offeror, was interested in 2,728,000 Shares. Mr. Warren Lee made the following acquisition of Shares. Saved as disclosed in this paragraph, Mr. Warren Lee had not dealt in the Shares for the period beginning 6 months prior to 4th November, 2003:

Number of Share	Acquisition Price	Date of Acquisition
500,000	HK\$0.295	12th November, 2003
298,000	HK\$0.295	21st November, 2003
1,100,000	HK\$0.295	25th November, 2003
330,000	HK\$0.295	27th November, 2003
500,000	HK\$0.295	28th November, 2003

- (j) As at the Latest Practicable Date, Yu Ming, the investment manager of the Company, had no shareholdings in the Company.
- (k) As at the Latest Practicable Date, no Shareholder has committed to accept or reject the Offer.
- (l) There is no agreement, arrangement or understanding (including any compensation arrangement) exists between the Offeror or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Offer.

- (m) No Shares to be acquired pursuant to the Offer will be transferred to or held for any other persons.
- (n) There is no arrangement of the kind referred to in Note 8 of Rule 22 of the Code which exist between the Offeror, or any person acting in concert with the Offeror, and any other person.
- (o) Save as disclosed in paragraph (c) and (i) above, no concert party had dealt in Shares for the period beginning 6 months prior to 4th November, 2003 and ending on the Latest Practicable Date.
- (p) Save as disclosed above, no parties mentioned in this section had dealt in any Shares or Shares in the Offeror, options, or any other convertible securities, warrants, options or derivatives in respect of Shares or Shares in the Offeror for the period beginning 6 months prior to 4th November, 2003 and ending on the Latest Practicable Date.

5. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were 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 the directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules are as follows:-

(a) Interests in Shares of the Company

Name of directors	Personal interests*	Family interests	Corporate interests	Other interests	Total	% of total issued shares
Fung Wing Cheung, Tony	3,328,000	-	-	679,346,258 (Note 1)	682,674,258	40.37
Fung Yiu Fai, Peter	6,500,000	-	-	-	6,500,000	0.38
Lee Seng Hui	-	-	364,151,800 (Note 2)	-	364,151,800	21.53
Fabrice Jacob	1,000,000	-	-	-	1,000,000	0.06
Lee Yip Wah, Peter	1,550,000	-	-	-	1,550,000	0.09
Albert Ho	300,000	-	-	-	300,000	0.02

* Beneficial owner

Note 1: Goldfield Venture Limited (“Goldfield”) and the Offeror hold 245,000,000 and 434,346,258 Shares respectively. Since Goldfield is wholly-owned by the Offeror, the Offeror is deemed to be interested in 679,346,258 Shares in total. The Offeror is also wholly-owned by Oyster Services Limited, the trustee of the Oyster Unit Trust, which in turn Oyster Services Limited is deemed to be interested in 679,346,258 Shares.

The trust property of the Oyster Unit Trust comprises the entire issued capital of the Offeror. The beneficiary of Oyster Unit Trust is HSBC International Trustee Limited which holds the trust property (including the beneficial interest under the Oyster Unit Trust) on trust for the beneficiaries of The Alyssa Js 1 Trust. The beneficiaries of The Alyssa Js 1 Trust are, inter alia, Tony Fung Wing Cheung’s children under 18.

As such, Tony Fung Wing Cheung is deemed to be interested in 581,525,258 Shares in which his children under 18 have ultimate beneficial interest under the above arrangement.

Note 2. Together with other trustees of the Lee and Lee Trust, Mr. Lee Seng Hui (being also a trustee of the Lee and Lee Trust) held 38.31% interest in Allied Group Limited which is the ultimate holding company of Sun Hung Kai. As such, Mr. Lee Seng Hui is deemed to be interested in 364,151,800 Shares (21.53%) of the Company through Sun Hung Kai.

(b) Interests in shares of associated corporations

Name of director	Name of corporations	Number of shares				Total
		Persona interests	Family interests	Corporate interests	Other interests	
Fung Wing Cheung, Tony	Honnex Development Limited	–	–	–	500 (5%)	500 (5%)
	Long Vocation Investments Limited	–	–	–	5 (5.55%)	5 (5.55%)

Note: These shares are held through Oyster Services Limited, the trustee of the Oyster Unit Trust. The beneficiary of Oyster Unit Trust is HSBC International Trustee Limited which holds the trust property (including the beneficial interest under the Oyster Unit Trust) on trust for the beneficiaries of The Alyssa Js 1 Trust. The beneficiaries of The Alyssa Js 1 Trust are, inter alia, Tony Fung Wing Cheung’s children under 18.

As such, Tony Fung Wing Cheung is deemed to be interested in these shares in which his children under 18 have ultimate beneficial interest under the above arrangement.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company has, and is deemed to have interest in the shares, underlying Shares and debentures for shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which was required (in the case of the Directors) to be notified to the Company and the Stock Exchange pursuant to Section 347 of the SFO (including interests which they were taken or deemed to have under Section 344 of the SFO), or which required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein.

(c) Other Interest

There is no Directors' service contract in force with the Company or any of its subsidiaries or associated companies which have more than 12 months to run as at the Latest Practicable Date nor had any Director entered into or amended any service contract with any member of the Group or any associated company of the Company within the six months preceding 4th November, 2003, being the date of announcement of the Offer.

As at the Latest Practicable Date, none of the Directors had a material personal interest in any material contract entered into by the Offeror.

As no directors of the Company or any of its subsidiaries is to resign as a result of this Offer, no benefit will be given to any of them as compensation for the loss of office in connection with the Offer.

6. DIRECTORS' DEALINGS

Save for the Acquisition and the acquisition made by Mr. Albert Ho on 5th September, 2003, the details of which are set out in this Offer Document, none of the Directors, including their respective spouses, children under the age of 18, related trusts and companies controlled by them, had dealt for value in the securities of the Company during the period beginning 6 months prior to 4th November, 2003 and ending with the Latest Practicable Date.

7. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange (i) on the last trading day in each of the six months immediately preceding the date of the announcement of the Offer; (ii) on 3rd October, 2003, being the last trading day for the Shares before the release of the announcement of the Offer; and (iii) on the Latest Practicable Date.

Date	Closing Price HK\$
30th May, 2003	0.234
30th June, 2003	0.244
31st July, 2003	0.260
29th August, 2003	0.360
30th September, 2003	0.295
3rd October 2003	0.31
Latest Practicable Date	0.295

The highest and lowest closing prices of the Shares during the period commenced on 4th May, 2003, being six months prior to the date immediately preceding the announcement of the Offer, and ended on the Latest Practicable Date were HK\$0.37 on 25th August, 2003 and HK\$0.229 on 5th June, 2003 respectively. Trading in the Shares have been suspended from 6th October, 2003 to 4th November, 2003, pending the publication of the Offer Announcement.

8. CONSENT

Each of Yu Ming and Chateron has given and has not withdrawn its written consent to the issue of this Offer Document with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

9. MATERIAL CONTRACTS

During the 2 years before the commencement of the Offer period, the Group did not enter into any material contract, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Group.

10. LITIGATION

In September 2001, the Company, together with Chow Tai Fook Nominee Limited and Mr. Tony Fung Wing Cheung together referred to as the “Plaintiffs”, issued a statement of claim against three independent third parties (the “Defendants”) for the refund of a deposit made to the Defendants and related damages as a result of a breach of terms in a bid (the “Bid”) relating to the sale and purchase of shares in Kowloon Development Company Limited. The deposit attributable to the Company amounts to approximately HK\$17 million and was included in “Trade and other receivable” in the Company’s 2002 annual report. Subsequently in October 2001, the Defendants served a counterclaim on the Plaintiffs for loss and damages as a result of the non-completion of the Bid. At this stage, the Directors have not made any provision against the deposit and the counterclaim because they believe the Company have meritorious claims against the Defendants, however the Directors and the Company’s legal advisor are unable to assess the outcome and the effect of the above legal proceedings on the Company.

Saved as disclosed above, the directors are not aware of any litigation or claims of material importance pending or threatened against the Company or any of its subsidiaries.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Yu Ming, the financial adviser of Offeror, at Suite 51, 5th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong during normal business hours (except Sundays and public holidays in Hong Kong) up to and including 8th December, 2003. With effect from 9th December, 2003, the offices of Yu Ming will be relocated to Room 1001, 10th Floor, AON China Building, 29 Queen’s Road Central, Hong Kong. Copies of the following documents will be made available for inspection in the new offices of Yu Ming for so long as the Offer remains open for acceptances:

- (a) the letters from Yu Ming and Chateron;
- (b) the letters of consent from Yu Ming and Chateron referred to in paragraph 8 above headed “Consent”;
- (c) the Memorandum and Articles of Association of the Offeror and the Company;
- (d) audited consolidated accounts of the Company the each of year ended 31st December, 2001 and 2002; and
- (e) the interim report of the Company for the six months ended 30th June, 2003.