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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Merchants DiChain (Asia) Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**CHINA MERCHANTS DICHAIN (ASIA) LIMITED**

招商迪辰(亞洲)有限公司\*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 632)**

**ORIENT DAY DEVELOPMENTS LIMITED**

東日發展有限公司\*

*(Incorporated in the British Virgin Islands with limited liability)*

**SUBSCRIPTION OF NEW SHARES  
ISSUE OF CONVERTIBLE NOTES  
GRANT OF OPTION TO SUBSCRIBE FOR NEW SHARES  
APPLICATION FOR WHITEWASH WAIVER  
INCREASE IN AUTHORIZED SHARE CAPITAL  
SHARE CONSOLIDATION  
CHANGE IN BOARD LOT SIZE  
GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

**Financial Adviser to the Subscriber**

***Hercules***

**Hercules Capital Limited**

**Independent Financial Adviser to the Independent Board Committees**



**KINGSTON CORPORATE FINANCE LIMITED**

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Letters from the Independent Board Committees are set out on pages 32 to 33 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committees is set out on pages 34 to 61 of this circular.

A notice convening a special general meeting of China Merchants DiChain (Asia) Limited to be held at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Monday, 22 May 2006 at 10:00 a.m. is set out on pages 154 to 158 of this circular. A form of proxy for use at the special general meeting is also enclosed. Whether or not you are able to attend the special general meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if they so wish.

\* For identification purpose only

4 May 2006

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## EXPECTED TIMETABLE

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2006

Latest time for lodging forms of proxy for the SGM . . . . .	10:00 a.m. Saturday, 20 May
SGM . . . . .	10:00 a.m. Monday, 22 May
Effective date of the Share Consolidation . . . . .	Tuesday, 23 May
Announcement of results of the SGM to be published . . . . .	Tuesday, 23 May
Dealings in the Consolidated Shares commence . . . . .	9:30 a.m. Tuesday, 23 May
Original counter for trading in the Shares in board lots of 10,000 Shares temporarily closes . . . . .	9:30 a.m. Tuesday, 23 May
Temporary counter for trading in the Consolidated Shares in board lots of 200 Consolidated Shares opens . . . . .	9:30 a.m. Tuesday, 23 May
First day for free exchange of existing certificates for the Shares for new certificates for the Consolidated Shares . . . . .	Tuesday, 23 May
Original counter for trading in the Consolidated Shares in board lots of 1,000 Consolidated Shares reopens . . . . .	9:30 a.m. Wednesday, 7 June
Parallel trading in the Consolidated Shares in the form of existing and new share certificates commences . . . . .	9:30 a.m. Wednesday, 7 June
Designated broker starts to stand in the market to provide matching service . . . . .	9:30 a.m. Wednesday, 7 June
Temporary counter for trading in the Consolidated Shares in board lots of 200 Consolidated Shares closes . . . . .	4:00 p.m. Wednesday, 28 June
Parallel trading in the Consolidated Shares ends . . . . .	4:00 p.m. Wednesday, 28 June
Designated broker ceases to stand in the market to provide matching service . . . . .	4:00 p.m. Wednesday, 28 June
Last day of free exchange of existing certificates for the Shares for new certificates for the Consolidated Shares . . . . .	Friday, 30 June

*Note:* All times and dates refer to Hong Kong local times and dates.

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## DEFINITIONS

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*In this document, the following expressions have the meanings set out below unless the context requires otherwise:*

“Announcement”	the announcement issued by the Company and the Subscriber dated 23 March 2006 relating to the matters contained in this document
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	China Merchants DiChain (Asia) Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Subscription Agreements
“Conditional Agreement”	the conditional agreement dated 22 February 2006, entered into between, inter alia, the Company and the Subscriber in relation to, among other things, the Share Subscription and the Grant of Option
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consolidated Share(s)”	share(s) of HK\$0.50 each in the share capital of the Company after the Share Consolidation becoming effective
“Conversion Price”	the price per Conversion Share at which the Convertible Notes are to be converted into Conversion Shares, such price being HK\$0.01 per Conversion Share, subject to adjustments, if any
“Conversion Rights”	the rights attached to the Convertible Notes to convert its principal amount or a part thereof into Conversion Shares
“Conversion Shares”	the Shares to be issued by the Company upon the conversion of the Convertible Notes which shall rank pari passu with the other existing Shares

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## DEFINITIONS

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“Convertible Notes”	the convertible notes of a principal amount of HK\$30,000,000 to be issued by the Company and subscribed for by the Subscriber in accordance with the Subscription Agreements subject to the terms and conditions as therein contained
“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
“General Mandate”	the proposed general mandate to be sought at the SGM to authorize the Directors to allot and issue new Shares in the manner set out in the notice of SGM
“Grant of Option”	the granting of the Option to the Subscriber pursuant to the Subscription Agreements
“Group”	the Company and its subsidiaries
“Hercules”	Hercules Capital Limited, a corporation licensed under the SFO to carry on Type 6 (Advising on corporate finance) regulated activity under the SFO, and the financial adviser to the Subscribers
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IBC (Takeovers Code)”	the independent board committee comprising Dr. Robert Fung Hing Piu, a non-executive Director, and all independent non-executive Directors, namely Mr. Barry J. Buttifant, Mr. Iain F. Bruce and Mr. Victor Yang, appointed in compliance with the Takeovers Code to consider and advise the Independent Shareholders the terms of the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver

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## DEFINITIONS

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“IBC (Listing Rules)”	the independent board committee comprising only the independent non-executive Directors, namely Mr. Barry J. Buttifant, Mr. Iain F. Bruce and Mr. Victor Yang, appointed in compliance with the Listing Rules to consider and advise the Independent Shareholders the terms of the Share Subscription, Issue of Convertible Notes and Grant of Option
“Independent Board Committees”	the IBC (Takeovers Code) and IBC (Listing Rules)
“Independent Financial Adviser” or “Kingston”	Kingston Corporate Finance Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholders”	shareholders who have not been involved in or, are not interested in the transactions contemplated in the Subscription Agreements, including the Whitewash Wavier, being Shareholders other than DiChain Holdings Limited, Farsight Holdings Limited, Mr. Chen Gang, Gordon, the Subscriber and the Subscriber’s beneficial owner and their respective associates and concert parties. Smooth Develop Investments Limited, Sunny State Investments Limited and their respective associates and concert parties shall abstain from voting voluntarily for the benefit of the Company
“Issue of Convertible Notes”	the issue of Convertible Notes to the Subscriber by the Company pursuant to the terms of the Subscription Agreements
“Latest Practicable Date”	2 May 2006, being the latest practicable date prior to the printing of this document for the purposes of ascertaining certain information for inclusion in this document
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Noteholder(s)”	the person(s) or corporation(s) who is or are for the time being the registered holder(s) of the Convertible Notes
“Option”	the option granted by the Company to the Subscriber in relation to the subscription of the Option Shares

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## DEFINITIONS

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“Option Share(s)”	the Share(s) to be issued by the Company pursuant to the exercise by the Subscriber or the holder(s) of the Option
“PRC”	the People’s Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Registrar”	the branch share registrar of the Company in Hong Kong, Tengis Limited, whose registered office is situate at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Repurchase Mandate”	the general mandate to be proposed at the SGM to authorize the Directors to repurchase Shares in the manner set out in the notice of SGM
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance
“SGM”	the special general meeting of the Company to be held on Monday, 22 May 2006 at 10:00 a.m. at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to consider and, if thought fit, approve the resolutions regarding, among other things, the Share Subscription, Issue of Convertible Notes, Grant of Option, the Whitewash Waiver, the increase in authorized share capital and share consolidation of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Share Consolidation”	the consolidation of every 50 Shares in the issued and unissued share capital of the Company into one Consolidated Share in the issued and unissued share capital of the Company
“Share Subscription”	the subscription of the Subscription Shares by the Subscriber upon and subject to the terms and conditions of the Subscription Agreements
“Shareholder(s)”	the holder(s) of the Share(s)

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## DEFINITIONS

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“Solicitors”	Messrs. Preston Gates & Ellis
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Orient Day Developments Limited, an investment holding company incorporated in the British Virgin Islands with limited liability
“Subscription Agreements”	the Conditional Agreement and the Supplemental Agreement entered into between, inter alia, the Company and the Subscriber in relation to the Share Subscription, Issue of Convertible Notes and Grant of Option
“Supplemental Agreement”	the supplemental agreement dated 20 March 2006 entered into between, inter alia, the Company and the Subscriber, to amend the terms of the Conditional Agreement and in respect of the Issue of the Convertible Notes
“Subscription Price”	HK\$0.01, being the subscription price of each Subscription Share
“Subscription Shares”	4,000,000,000 new Shares to be issued by the Company to the Subscriber pursuant to the Subscription Agreements
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Warrantor”	DiChain Holdings Limited, the substantial Shareholder and warrantor of the Subscription Agreements
“Whitewash Waiver”	the waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.



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LETTER FROM THE BOARD

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**CHINA MERCHANTS DICHAIN (ASIA) LIMITED**

**招商迪辰(亞洲)有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 0632)**

*Executive Directors:*

Fan Di (*Chairman*)

Zhou Li Yang

Zheng Yingsheng

Chen Gang, Gordon

(alternate to Dr. Fan Di)

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Non-executive Directors:*

Robert Fung Hing Piu

Wang Shizhen

*Head office and principal place*

*of business in Hong Kong:*

Unit 3611, 36th Floor

West Tower, Shun Tak Centre

168-200 Connaught Road

Central

Hong Kong

*Independent non-executive Directors:*

Barry J. Buttifant

Iain F. Bruce

Victor Yang

4 May 2006

*To the Shareholders and, for information only,  
the holders of share options*

Dear Sirs,

**SUBSCRIPTION OF NEW SHARES  
ISSUE OF CONVERTIBLE NOTES  
GRANT OF OPTION TO SUBSCRIBE FOR NEW SHARES  
APPLICATION FOR WHITEWASH WAIVER  
INCREASE IN AUTHORIZED SHARE CAPITAL  
SHARE CONSOLIDATION  
CHANGE IN BOARD LOT SIZE  
GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

**1. INTRODUCTION**

As announced by the Company on 23 March 2006, the Company and the Subscriber entered into the Subscription Agreements under which, subject to certain conditions, (i) the

\* For identification purpose only

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## LETTER FROM THE BOARD

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Company agreed to issue and the Subscriber agreed to subscribe for the Subscription Shares and the Convertible Notes; and (ii) the Company agreed to grant the Option to the Subscriber, pursuant to which the Subscriber may require the Company to issue the Option Shares to the Subscriber or such person(s) as the Subscriber may direct. The Board also proposed to increase the authorized share capital of the Company from HK\$80,000,000 to HK\$300,000,000, to conduct the Share Consolidation and to grant to the Directors the General Mandate and Repurchase Mandate.

To comply with the Takeovers Code, Dr. Robert Fung Hing Piu, a non-executive Director, and all the independent non-executive Directors, namely Mr. Barry J. Buttifant, Mr. Iain F. Bruce and Mr. Victor Yang have been appointed as members of the IBC (Takeovers Code) to consider and advise the Independent Shareholders in relation to the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver. All members of the IBC (Takeovers Code) have confirmed that they have no direct or indirect interest in the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver and thus they are considered to be independent and suitable for acting as members of the IBC (Takeovers Code). Another non-executive Director, Mr. Wang Shizhen, was a director of DiChain Holdings Limited within the preceding two years and thus he is not considered to be independent and suitable for acting as a member of the IBC (Takeovers Code).

According to Rule 13.39 of the Listing Rules, the independent board committee established for the purpose of advising transactions that are subject to independent shareholders' approval pursuant to the Listing Rules shall consist only of independent non-executive Directors. Therefore, the IBC (Listing Rules), comprising only the independent non-executive Directors, namely Mr. Barry J. Buttifant, Mr. Iain F. Bruce and Mr. Victor Yang, has been established to consider and advise the Independent Shareholders in relation to the Share Subscription, Issue of Convertible Notes and Grant of Option.

The purpose of this circular is to provide you with further details relating to the above transactions, the advices from the Independent Financial Adviser and the Independent Board Committees and the notice of the SGM.

## 2. THE SUBSCRIPTION AGREEMENTS

Date: Conditional Agreement – 22 February 2006;

Supplemental Agreement – 20 March 2006

Parties: (a) the Company;

(b) the Subscriber;

(c) the Warrantor.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Subscriber and its beneficial owners are independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### **The Share Subscription**

Pursuant to the Subscription Agreements, the Company agreed to allot and issue, and the Subscriber agreed to subscribe in cash of HK\$40,000,000 for a total of 4,000,000,000 Subscription Shares at a price of HK\$0.01 per Share, which represent approximately 73.6% of the existing issued share capital of the Company and 42.4% of the issued share capital as enlarged by the issue of the Subscription Shares.

#### *Subscription Price*

The Subscription Price represents a discount of approximately 67.7% to the closing price of HK\$0.0310 per Share as quoted on the Stock Exchange on 20 February 2006, being the last trading day immediately before the date of the Announcement, a discount of approximately 65.9% to the average closing price of HK\$0.0293 per Share as quoted on the Stock Exchange over the last ten trading days up to and including 20 February 2006, being the last trading day immediately before the date of the Announcement, a discount of approximately 33.3% to the price of disposal of Shares of HK\$0.015 per Share by DiChain Holdings Limited on 20 February 2006, and a discount of 56.5% to the Group's latest audited net asset value of HK\$0.023 per Share as at 31 March 2005.

The Subscription Price was determined after arm's length negotiations between the Company and the Subscriber, after considering the Group's existing financial position, urgency of cash for settlement of the litigation, availability and cost of funds by using other financing methods, liquidity of the Shares in the market, the amount of funds and number of Shares involved in the Share Subscription, business prospect and potential benefits (both monetary and non-monetary) that potentially could be derived from the Share Subscription, Issue of Convertible Notes and Grant of Option, details of which are set out in Reasons for the Share Subscription, Issue of Convertible Notes and Grant of Option. The Board is of the view that the terms of the Share Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole despite the discounts of the Subscription Price as mentioned above.

The total consideration of the Subscription Shares of HK\$40,000,000 shall be settled as follows:

- HK\$2,000,000 was paid on 22 February 2006 as deposit to the Solicitors which shall be held by the Solicitors in escrow pending Completion;
- the balance of HK\$38,000,000 shall be payable at Completion.

In the event that Completion does not take place because the Subscriber is not satisfied with the results of the due diligence review or any one of the conditions precedent cannot be fulfilled, the Company shall return the deposit together with the interest thereon to the Subscriber within 24 hours after the Solicitors receiving notice from the Subscriber.

#### *Subscription Shares*

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

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

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## LETTER FROM THE BOARD

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### Issue of Convertible Notes

According to the Subscription Agreements, subject to the completion of the Share Subscription, the Company agreed to issue to the Subscriber the Convertible Notes with principal terms set out below:

Principal Amount: HK\$30,000,000

Conversion Price: The initial Conversion Price is HK\$0.01 per Conversion Share, subject to adjustments, if any (detailed terms relating to adjustments of the Conversion Price are set out in Appendix VI).

The Conversion Price was determined on an arm's length basis between the Company and the Subscriber after taking into consideration of the Group's existing financial position, availability and cost of funds by using other financing methods, business prospect and potential benefits (both monetary and non-monetary) that could potentially be derived from the Share Subscription, Issue of Convertible Notes and Grant of Option, details of which are set out in Reasons for the Share Subscription, Issue of Convertible Notes and Grant of Option.

The initial Conversion Price is the same as the Subscription Price. It represents a discount of approximately 67.7% to the closing price of HK\$0.0310 per Share as quoted on the Stock Exchange on 20 February 2006, being the last trading day immediately before the date of the Announcement and a discount of approximately 65.9% to the average closing price of HK\$0.0293 per Share as quoted on the Stock Exchange over the last ten trading days up to and including 20 February 2006, being the last trading day immediately before the date of the Announcement and a discount of 56.5% to the Group's latest audited net asset value of HK\$0.023 per Share as at 31 March 2005.

Interest: The Convertible Notes will bear interest from the date of issue of the Convertible Notes at the rate of 4% per annum on the outstanding principal amount of the Convertible Notes, which will be payable by the Company quarterly in arrears.

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## LETTER FROM THE BOARD

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- Maturity Date:** The maturity date of the Convertible Notes will be the date falling two years after the date of the issue of the Convertible Notes.
- Redemption:** The Company shall be entitled to redeem at 100% all or any part of the principal amount of the Convertible Notes, by giving not less than 7 days' written notice to the Noteholder(s) from time to time after the date of issue of the Convertible Notes provided that the Noteholder(s) shall have the right to exercise his/her Conversion Rights within 7 days from the date of the said notice.
- Conversion Period:** The Convertible Notes are convertible at any time from the date of issue and up to the maturity date of the Convertible Notes.
- Conversion Rights:** The Noteholder(s) has/have the right to convert all or part of the Convertible Notes into Conversion Shares at the Conversion Price of HK\$0.01 per Conversion Share during the Conversion Period. The Conversion Rights may only be exercisable in respect of not less than 300,000,000 Conversion Shares upon each conversion.
- Conversion Shares:** The number of Conversion Shares to be issued upon full conversion of the Convertible Notes will be 3,000,000,000 Shares, representing approximately 55.2% of the existing issued share capital of the Company, 31.8% of the issued share capital as enlarged by the issue of the Subscription Shares and 24.1% of the issued share capital as enlarged by the issue of the Subscription Shares and conversion of the Convertible Notes in full.
- The Conversion Shares to be issued upon conversion of the Convertible Notes will rank pari passu in all respects with the Shares in issue on the date of conversion.
- Voting:** The Noteholder(s) will not be entitled to attend or vote at any general meetings of the Company by reason only of his/her being the Noteholder(s).

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## LETTER FROM THE BOARD

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Security:

A first fixed charge and first floating charge will be created in favour of the Noteholder(s) to secure the repayment of the outstanding principal and interest of the Convertible Notes from time to time.

The first fixed charge charges over, inter alia, all fixtures, books and other debts, revenues and claims, stocks, shares, bonds and securities, uncalled or unpaid capital and premiums, quotas, licences, permits and other rights granted by any government authorities, proceeds received or receivable, income, receipts, dividends, distributions and payments of the Company.

The first floating charge charges all other rights, assets and undertaking whatsoever and wherever present and future of the Company including, inter alia, all rights, assets or undertakings which are ineffective or incapable of being subject to first fixed charge above.

If the Company does not repay the Convertible Notes at maturity date, the Subscriber will have the right to enforce these charges and may realize all assets under the charges to settle the outstanding principal and interest of the Convertible Notes.

Transferability:

The Convertible Notes shall be assignable and transferable in whole or in part at any time. Prompt notice will be given to the Stock Exchange of each transfer and the Company has undertaken to the Stock Exchange that it will disclose to the Stock Exchange any dealing in the Convertible Notes by any connected person or his/her associates.

Listing:

No application will be made for the listing of the Convertible Notes in any exchange of any jurisdiction.

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## LETTER FROM THE BOARD

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**Deposit:** A deposit of HK\$1,000,000, which shall be held by the Solicitors in escrow pending Completion, was paid to the Solicitors on 22 February 2006 while the balance of HK\$29,000,000 of the principal of the Convertible Notes shall be payable to the Company at Completion.

In the event that Completion does not take place because the Subscriber is not satisfied with the results of the due diligence review or any one of the conditions precedent of the Subscription Agreements cannot be fulfilled, the Company shall return the deposit together with interest thereon to the Subscriber within 24 hours after the Solicitors receiving notice from the Subscriber.

The Conversion Shares will be issued under a special mandate proposed to be sought from the Independent Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **Grant of Option**

According to the Subscription Agreements, subject to the completion of the Share Subscription, the Company also agreed to grant to the Subscriber the Option with principal terms set out below:

**Consideration:** HK\$10, payable upon Completion

**Option Right:** the Subscriber has the right to subscribe not more than 1,000,000,000 Option Shares, which represent approximately 18.4% of the existing issued share capital of the Company, 8.0% of the issued share capital as enlarged by the issue of the Subscription Shares and exercise of the Convertible Notes in full and 7.4% of the issued share capital as enlarged by the issue of the Subscription Shares and the conversion and exercise of the Convertible Notes and Option respectively in full, by tranches at the Subscriber's discretion, provided that the number of Shares to be subscribed in each tranche shall not be less than 300,000,000 Shares.

**Exercise Period:** The Option may be exercised by the Subscriber at any time during the period immediately after Completion to the date falling two years after Completion.

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## LETTER FROM THE BOARD

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Exercise Price:

The initial Exercise Price is HK\$0.01 per Option Share, subject to adjustments, if any (detailed terms relating to adjustments of the Exercise Price are set out in Appendix VII).

The initial Exercise Price is the same as the Subscription Price. It represents a discount of approximately 67.7% to the closing price of HK\$0.0310 per Share as quoted on the Stock Exchange on 20 February 2006, being the last trading day immediately before the date of the Announcement and a discount of approximately 65.9% to the average closing price of HK\$0.0293 per Share as quoted on the Stock Exchange over the last ten trading days up to and including 20 February 2006, being the last trading day immediately before the date of the Announcement and a discount of 56.5% to the Group's latest audited net asset value of HK\$0.023 per Share as at 31 March 2005.

The Exercise Price of the Option was determined after arm's length negotiations between the Company and the Subscriber, after considering the Group's existing financial position, availability and cost of funds by using other financing methods, business prospect and potential benefits (both monetary and non-monetary) that could potentially be derived from the Share Subscription, Issue of Convertible Notes and Grant of Option, details of which are set out in Reasons for the Share Subscription, Issue of Convertible Notes and Grant of Option. The Board is of the view that the terms of the Grant of Option are fair and reasonable and in the interests of the Company and the Shareholders as a whole despite the discounts of the Exercise Price as mentioned above.

Transferability:

the Option shall be transferable in whole or in part to any third party at any time. The Company shall notify the Stock Exchange as soon as possible after receipt of the notice of transfer and the Company has undertaken to the Stock Exchange that it will disclose to the Stock Exchange any dealing in the Option by any connected person or his/her associates.



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## LETTER FROM THE BOARD

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Ranking of Option Shares: the Option Shares will rank pari passu in all respects with all other existing Shares outstanding as at the date of issue and allotment.

The Option Shares will be issued under a special mandate proposed to be sought from the Independent Shareholders in the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in the Option Shares.

### Other Terms

Under the terms of the Subscription Agreements, the Warrantor provided an undertaking that it shall procure the Shenzhen Commercial Bank, Shekou Branch to terminate or cancel all the guarantees provided by the Company for the loan of RMB60 million, which is repayable on 28 October 2006, granted to DiChain Logistics Services (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, and relieve the Company's obligations thereof within one year after Completion. The Warrantor further agreed to pledge 1,000,000,000 Shares, beneficially owned by the Warrantor and its associates, free from all and any encumbrance, to the Solicitors as collateral until all the guarantees of loans provided by the Company have been terminated or cancelled. The Company has the right to sell or transfer part of or all of the pledged Shares for compensation of any economic loss arising from any breach of the warranties provided by the Warrantor.

Pursuant to the Subscription Agreements, upon Completion, Mr. Wong Yuk Kwan (alias: Wong Kwan) shall be appointed as the chairman of the Board, executive Director and chief executive of the Company and the Subscriber shall have the right to nominate no less than two executive Directors and two independent non-executive Directors to the Board.

The Subscriber has the intention to nominate Dr. Anwar Ibrahim and Dr. Lee G. Lam as independent non-executive Directors and Mr. Chan Yiu Keung and Mr. Cheung Kwok Yu as executive Directors to the Board.

Dr. Anwar Ibrahim, who is a well known international figure in politics and economics, is the former Deputy Prime Minister and Minister of Finance of Malaysia. He has extensive social networks in Europe, USA, Middle East and Asia Pacific. In 1998, Newsweek magazine named Dr. Anwar Ibrahim the "Asian of the Year." Dr. Ibrahim is currently a consultant on governance of the World Bank (Washington, USA); Honorary President of Accountability (London, UK); and distinguished visiting professor at Georgetown University (Washington, USA).

Dr. Lee G. Lam is a renowned top executive in the business and financial sectors. He is the President & Chief Executive Officer and Vice Chairman of Chia Tai Enterprises International Limited (Stock Code 0121). Dr. Lam is also an independent non-executive director of Capital Strategic Investment Limited (Stock Code 0497), Far East Technology International Limited (Stock Code 0036), Finet Group Limited (Stock Code 8317), Hutchison Harbour Ring Limited (Stock Code 0715), Mingyuan Medicare Development Company

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## LETTER FROM THE BOARD

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Limited (Stock Code 0233), Vongroup Limited (Stock Code 0318) and Rowsley Limited (Singapore-listed); and a non-executive director of Glorious Sun Enterprises Limited (Stock Code 0393) and a director of True Corporation Public Company Limited (Thailand-listed). Dr. Lam has over 24 years of international management experience and has held important positions with a number of reputable companies including BOC International Holdings Limited, Singapore Technologies Telemedia, Hongkong Telecom and Bell Canada. A fellow of the Hong Kong Institute of Directors, Dr. Lam holds a B.Sc., an M.Sc., an M.B.A., a post-graduate diploma in public administration, a post-graduate diploma in English and Hong Kong law and a Ph.D.

Mr. Chan Yiu Keung has over 22 years' working experience in finance, investment and banking. He has held senior positions in the investment banking and private equity businesses of Standard Chartered Bank, Manufacturers Hanover and Citibank. He was involved in investment banking, corporate finance, private equity, capital markets and project finance, and has extensive experience in the Asia Pacific region and China. Mr. Chan obtained a Master Degree of Business Administration from the Chinese University of Hong Kong, a Bachelor Degree of Laws from University of London and a Bachelor Degree of Arts from Hong Kong University. Mr. Chan is also a Chartered Financial Analyst charterholder. He is currently the advisor of Pearl Oriental Corporation Limited and is responsible for investment strategy.

Mr. Cheung Kwok Yu has over 15 years of experience with international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is a Chartered Financial Analyst charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. He has a Master degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts degree in Accountancy from Hong Kong Polytechnic University. Mr. Cheung is currently a director of Oriental Capital Innovation Limited.

The Board currently comprises four executive Directors, namely Messrs. Fan Di, Zhou Li Yang, Zheng Yingsheng, and Chen Gang, Gordon (alternate to Dr. Fan Di), two non-executive Directors, namely Messrs. Robert Fung Hing Piu and Wang Shizhen and three independent non-executive Directors, namely Messrs. Barry J. Buttifant, Iain F. Bruce and Victor Yang. Upon Completion, Dr. Fan Di, Messrs. Chen Gang, Gordon, Wang Shizhen, Barry J. Buttifant and Iain F. Bruce shall resign from the Board while Messrs. Zhou Li Yang, Zheng Yinsheng, Robert Fung Hing Piu and Victor Yang shall remain as Directors on the Board, whose terms of employment shall be determined by the new Board. Dr. Fan Di shall be invited to become a senior consultant of the Company after his resignation from the Board. The existing service agreement entered into between the Company and Dr. Fan Di will be terminated upon his resignation as a Director and the new Board shall determine the new terms of employment as a senior consultant after negotiating with Dr. Fan Di.

The Company undertakes that it shall comply with Rule 3.10 of the Listing Rules to have at least three independent non-executive Directors on the Board and ensure that the proposed Directors shall comply with Rule 3.08 of the Listing Rules.

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## LETTER FROM THE BOARD

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### Conditions Precedent

Completion of the Subscription Agreements is conditional upon the fulfillment of the following conditions:

- (a) the Listing Committee of the Stock Exchange having granted the approval of the listing of, and permission to deal in, the Subscription Shares, the Conversion Shares that fall to be issued upon the exercise of the Conversion Rights attaching to the Convertible Notes and the Option Shares that fall to be issued upon the exercise of the rights attaching to the Option;
- (b) the Executive having granted to the Subscriber a waiver of the obligation to make a mandatory general offer to the Shareholders in respect of the Shares not already owned or agreed to be acquired by the Subscriber as a result of the subscription of the Subscription Shares and the issue and allotment of the Conversion Shares and the Option Shares in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code;
- (c) the passing by way of poll by the Independent Shareholders of resolutions in the SGM in compliance with the requirements of the Listing Rules and the Takeovers Code approving the increase in authorized share capital of the Company, the Subscription Agreements and the transactions contemplated thereunder including but not limited to the issue of the Subscription Shares, Issue of Convertible Notes, Grant of Option, the Whitewash Waiver and the special mandate to allot and issue the Conversion Shares and Option Shares, if so required;
- (d) the Bermuda Monetary Authority having granted the approval for the increase of the authorized share capital of the Company to 30,000,000,000 Shares; and
- (e) the Subscriber having completed its due diligence review on the Group and being satisfied with the results of the due diligence review by 10 April 2006.

None of the conditions above would be waived by the Subscriber and if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Subscription Agreements will lapse and the Share Subscription, Issue of Convertible Notes and Grant of Option will not proceed.

### Completion

Completion will take place on the third business day following the date on which all the above conditions are fulfilled, which shall not be later than 30 September 2006 or such other date as the relevant parties may agree in writing.

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## LETTER FROM THE BOARD

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### Use of Proceeds

The net proceeds from the Share Subscription and Issue of Convertible Notes is estimated to be approximately HK\$69.6 million, approximately HK\$30.0 million of which shall be used for the settlement of the outstanding loan owed to Guangdong Development Bank, Shenzhen Xiangmihu Branch while the balance of the proceeds and the proceeds to be received upon exercise of the Option by the Subscriber (if any) shall be applied for general working capital of the Group.

### Reasons for the Share Subscription, Issue of Convertible Notes and Grant of Option

As disclosed in the announcements of the Company dated 1 February 2006 and 24 February 2006, a litigation was lodged against the Company and DiChain Logistic Services (Shenzhen) Co., Ltd. (“DWS”), a subsidiary of the Company, by Guangdong Development Bank, Shenzhen Xiangmihu Branch (the “Plaintiff”) in relation to a default on payment of a loan of approximately HK\$28.8 million granted by the Plaintiff to DWS. As of the date of the Announcement, there was no overdue interest in relation to this particular loan. The Company and DWS have been seeking reconciliation outside the court with the Plaintiff. If no alternatives are accepted by the Plaintiff, the Group may have to repay the outstanding loan in full in a short period of time. Moreover, in addition to the loan owed to the Plaintiff, the Company has outstanding payables of approximately HK\$3.5 million which are due for immediate payment and bank borrowings of approximately RMB60 million (HK\$57.7 million). The original due date for repayment of the bank borrowings of approximately HK\$57.7 million was January 2006. After negotiations between the Group and the lender, the repayment date was extended to October 2006. The Directors expect that further extension of the repayment date will be unlikely without any significant improvement in the Company’s financial position. Therefore, the Group is in need of funding of at least approximately HK\$90 million in the near term.

Based on the unaudited interim results of the Company, as at 30 September 2005, the current assets of the Group amounted to approximately HK\$109.0 million, which comprised mainly approximately HK\$0.7 million of cash and cash equivalents, approximately HK\$23.4 million of trade and other receivables, approximately HK\$42.0 million of deposit paid for a possible acquisition, approximately HK\$30.4 million of loans receivable, approximately HK\$3.7 million of amount due from investees and approximately HK\$8.3 million of investments in securities. The trade and other receivables collected are applied mainly for settlement of outstanding payables and daily operating expenses to maintain the Group’s existing operations.

The deposit of HK\$42.0 million was made in accordance with an Asset Transfer Deposit Agreement (資產轉讓預付款協議) (the “Deposit Agreement”) dated 27 September 2005 entered into between the Company and Hero Vantage Limited (“Hero”), pursuant to which the Company shall acquire from Hero certain logistics assets on condition that, inter alia, Hero shall have acquired and become the legal owner of the relevant logistics assets (the “Condition Precedent”). If the Condition Precedent is not fulfilled within 12 months after the date of the

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## LETTER FROM THE BOARD

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Deposit Agreement, the deposit shall be refunded to the Company within 3 months thereafter with interest thereon to be calculated at the rate of 5% per annum. As at the Latest Practicable Date, the acquisition was still under negotiation stage and the consideration and other key terms of which have not been finalized yet. The acquisition may or may not proceed and the deposit will be refunded to the Company only until 26 December 2006 if the Condition Precedent is not fulfilled within the aforesaid 12-month contract period. The deposit may be subject to the disclosure requirement under Rule 13.13 of the Listing Rules at the relevant material time and further information relating to the deposit will be provided by the Company separately.

The loans receivable comprised the following three loans:

Borrower	Loan Amount (HK\$)	Interest Rate	Collaterals	Maturity Date	Date of Agreement
Squadram Limited	5.5 million	5% p.a.	Listed securities in the U.S. with market value of approximately HK\$17,773,423 <sup>Note 2</sup>	30 Jun 2006	1 Jul 2005
Earnest Investments Services Limited	8.0 million	5% p.a.	Listed securities in the U.S. with market value of approximately HK\$15,798,604 <sup>Note 2</sup>	31 Aug 2006	1 Sep 2005
Hero Vantage Limited <sup>Note 1</sup>	18.0 million	4% p.a.	20% shares of Hero and personal guarantee by the owner of Hero	26 Sep 2007	27 Sep 2005

*Notes:*

- The loan to Hero was not discloseable under the Listing Rules at the time when the relevant loan agreement was entered into. However, this loan became discloseable under Rule 13.13 in December 2005 as the percentage ratio of the consideration test exceeded 8% for the reason that the Shares were traded at a low price in that month. Due to inadvertent oversight, the Company failed to make timely disclosure in relation to the loan to Hero. Pursuant to the amendment of the Listing Rules which came into effect on 1 March 2006, Rule 13.13 of the Listing Rules was amended to the effect that the disclosure obligation will arise if the relevant advance to an entity exceeds 8% under the assets ratio test, which means the consideration test will no longer be referred to for the purpose of this rule. The assets ratio of this loan has never exceeded 8% from the date of the loan agreement.
- The market values are calculated based on the closing price of the listed securities on 1 May 2006, being the latest practicable date for ascertaining this information.

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## LETTER FROM THE BOARD

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All the abovementioned borrowers are independent third parties not connected with the Company or its associates. When the loans receivable were made to the borrowers, the Directors were confident that the Group's bank loan of RMB 30 million could be renewed as the Group had done so in the previous year. At the same time, the business of the Group operated normally and the Group had idle funds in addition to its required working capital. In consideration of the fact that sufficient collaterals would be pledged to the Group to secure the loans and it might be beneficial to the Group to fully utilize its idle funds to earn interests, loans were made to the borrowers. As at the Latest Practicable Date, the Directors were not aware of any fact or indication that substantiated the existence of recoverability problem on the loans receivable, the deposit and amount due from investees. Therefore, the Directors are of the view that the loans receivable, the deposit and amount due from investees are recoverable but there will be no early repayment.

In light of the above, the Directors do not expect that the Group can realize other current assets to meet its cash demand in a short period of time. The Directors are of the view that the Group is unlikely to be able to settle the outstanding loans unless additional financings are obtained by the Group in the immediate future. Should the Subscriber subscribe for the new Shares and the Convertible Notes and exercise the Option in full, the Company will be able to settle both aforementioned borrowings of approximately HK\$28.8 million and HK\$57.7 million respectively as the Company will have a cash of about HK\$50 million on hand after repayment of the loan of HK\$28.8 million to Guangdong Development Bank. In addition, the logistics operation of the Group may also contribute some cash revenue to the Company for partial settlement of the loan. At the same time, the Company will try to negotiate with its bankers for refinancing of the loan of HK\$57.7 million after the completion of the transactions contemplated in the Subscription Agreements. Having considered the difficulties of obtaining other means of fund-raising given the dire financial condition of the Company and the fact that the Share Subscription and the Issue of Convertible Notes will provide the Company with immediate funding with reasonable interest cost and the possible additional funding if the Option are exercised, the Directors consider that the Share Subscription, Issue of Convertible Notes and the Grant of Option, which are interdependent, are most time and cost effective, and the terms of which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors also consider that the Share Subscription, Issue of Convertible Notes and Grant of Option can bring in added value, such as the investment expertise and management experiences of the Subscriber, to the Group. Upon Completion, Mr. Wong Kwan will be appointed as chairman, executive Director and chief executive of the Company. The Directors expect that the joining of Mr. Wong Kwan to the Board can facilitate the business development of the Group and further improve the profile of the Company.

Upon Completion, the assets of the Group shall increase by approximately HK\$80.0 million (if the Option is fully exercised) and the liabilities shall increase by HK\$30 million. The Share Subscription, Issue of Convertible Notes and Grant of Option shall have no significant effect on the earnings of the Group.

The Group has not conducted any equity-related fund raising exercise during the past 12 months immediately prior to the date of the Announcement except the proposed issue of convertible notes and grant of option as announced by the Company on 5 December 2005, which has already been terminated as mentioned in the announcement of the Company dated 24 February 2006.

## LETTER FROM THE BOARD

### 3. CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming that there is no change in the issued share capital of the Company prior to the Completion of the Subscription Agreements, the following table sets out the shareholding structure of the Company (i) as at the date immediately before the disposal of Shares by DiChain Holdings Limited on 20 February 2006; (ii) as at the date of the Announcement; (iii) upon the issue of the Subscription Shares; (iv) upon the issue of the Subscription Shares and conversion of the Convertible Notes in full; (v) upon the issue of the Subscription Shares and conversion and exercise of the Convertible Notes and Option respectively in full; and (vi) upon the issue of the Subscription Shares, conversion and exercise of the Convertible Notes and Option respectively in full and the Share Consolidation becoming effective:

	Shareholding structure immediately before the disposal of Shares by DiChain Holdings Limited on 20 Feb 2006		Existing shareholding structure as at the date of the Announcement		Shareholding structure upon the issue of the Subscription Shares		Shareholding structure upon the issue of the Subscription Shares and conversion of the Convertible Notes in full		Shareholding structure upon the issue of the Subscription Shares and conversion and exercise of the Convertible Notes and Option respectively in full		Shareholding structure upon the issue of the Subscription Shares, conversion and exercise of the Convertible Notes and Option respectively in full and completion of the Share Consolidation	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Consolidated Shares	%
Farsight Holdings Limited (Note 1)	63,854,189	1.17	63,854,189	1.17	63,854,189	0.68	63,854,189	0.51	63,854,189	0.48	1,277,083	0.48
DiChain Holdings Limited (Note 1)	2,415,698,894	44.43	982,368,894	18.07	982,368,894	10.41	982,368,894	7.90	982,368,894	7.31	19,647,377	7.31
Chen Gang, Gordon (Notes 2 & 5)	63,160,000	1.16	63,160,000	1.16	63,160,000	0.67	63,160,000	0.51	63,160,000	0.47	1,263,200	0.47
Smooth Develop Investments Limited (Note 3)	-	-	1,100,000,000	20.23	1,100,000,000	11.65	1,100,000,000*	8.84	1,100,000,000*	8.18	22,000,000*	8.18
Sunny State Investments Limited (Note 4)	-	-	333,330,000*	6.13	333,330,000*	3.53	333,330,000*	2.68	333,330,000*	2.48	6,666,600*	2.48
Robert Fung Hing Piu (Notes 5 & 6)	4,305,437	0.08	4,305,437	0.08	4,305,437	0.05	4,305,437	0.04	4,305,437	0.03	86,108	0.03
First Horizon Limited (Note 5)	60,000,000	1.10	60,000,000	1.10	60,000,000	0.64	60,000,000	0.48	60,000,000	0.45	1,200,000	0.45
Sir Kenneth Fung Ping Fan Foundation Trust I (Note 5)	63,604,530	1.17	63,604,530	1.17	63,604,530	0.67	63,604,530	0.51	63,604,530	0.47	1,272,090	0.47
Barry J. Buttifant (Note 6)	1,000,000	0.02	1,000,000	0.02	1,000,000	0.01	1,000,000	0.01	1,000,000	0.01	20,000	0.01
Iain F. Bruce (Note 6)	5,000,000	0.09	5,000,000	0.09	5,000,000	0.05	5,000,000	0.04	5,000,000	0.04	100,000	0.04
The Subscriber	-	-	-	-	4,000,000,000	42.38	7,000,000,000	56.28	8,000,000,000	59.53	160,000,000	59.53
Other Public Shareholders	2,761,474,950*	50.78	2,761,474,950*	50.78	2,761,474,950*	29.26	2,761,474,950*	22.20	2,761,474,950*	20.55	55,229,502*	20.55
<b>Total</b>	<b>5,438,098,000</b>	<b>100.00</b>	<b>5,438,098,000</b>	<b>100.00</b>	<b>9,438,098,000</b>	<b>100.00</b>	<b>12,438,098,000</b>	<b>100.00</b>	<b>13,438,098,000</b>	<b>100.00</b>	<b>268,761,960</b>	<b>100.00</b>
Shares held by connected persons of the Company	2,676,623,050	49.22	2,343,293,050	43.09	6,343,293,050	67.21	8,243,293,050	66.28	9,243,293,050	68.79	184,865,858	68.79
Shares in public hands	2,761,474,950	50.78	3,094,804,950	56.91	3,094,804,950	32.79	4,194,804,950	33.72	4,194,804,950	31.21	83,896,102	31.21

#### Notes:

- DiChain Holdings Limited is owned as to 71.38% by Farsight Holdings Limited, 3.76% by Dr. Fan Di, 0.24% by Mr. Chen Gang, Gordon, 2.42% by High Criteria Holdings Limited, 9.69% by Fair Win Developments Limited, 4.85% by Pearl Sky Profits Limited, 0.49% by Asia Capital Link Partners, 0.49% by Mr. Yan Sheng, 0.49% by Netportfolio Limited, 0.49% by iGlobe Partners Fund, L.P., 0.36% by Mr. Zhao Xiao Ming Steve, 0.6% by Mr. Zhong Xu, 0.49% by Ms. Li Ngan Ying, 0.87% by Mr. Liou James Ming, 0.49% by Ms. Margaret Man, 2.3% by Mr. Chan Hok Yau, 0.56% by MV Group Limited, 0.03% by Mr. Chen Yao Hua. Farsight Holdings Limited is deemed to be interested in the Shares held by DiChain Holdings Limited.

Farsight Holdings Limited is owned as to 29.50% by Mr. Zhou Wei, 26.00% by Asia Capital Link Partners, 13.28% by Mr. Chen Gang, Gordon, 10.29% by Dr. Fan Di, 1.43% by Mr. Li Xing Gui and 19.50% by Ann Ku.



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## LETTER FROM THE BOARD

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2. Mr. Chen Gang, Gordon is alternate to Dr. Fan Di and therefore Mr. Chen Gang, Gordon is deemed to be a party acting in concert with DiChain Holdings Limited.
3. Smooth Develop Investments Limited is beneficially owned by Mr. Leung Hang Yu, an independent third party not connected to the substantial shareholders, chief executive and/or directors of the Company and of its subsidiaries and their respective associates as defined in the Listing Rules, the Subscriber and its beneficial owners. The Shares held by Smooth Develop Investments Limited were purchased from DiChain Holdings Limited at HK\$0.015 per Share on 20 February 2006.
4. Sunny State Investments Limited is beneficially owned by Ms. Suen Yim Wa, an independent third party not connected to the substantial shareholders, chief executive and/or directors of the Company and of its subsidiaries and their respective associates as defined in the Listing Rules, the Subscriber and its beneficial owners. The Shares held by Sunny State Investments Limited were purchased from DiChain Holdings Limited at HK\$0.015 per Share on 20 February 2006.
5. First Horizon Limited is 100% owned by Dr. Robert Fung Hing Piu, who is one of the trustees of Sir Kenneth Fung Ping Fan Foundation Trust I, a charitable foundation. Therefore, Dr. Robert Fung Hing Piu is deemed to be interested in the Shares held by First Horizon Limited and Sir Kenneth Fung Ping Fan Foundation Trust I.
6. Dr. Robert Fung Hing Piu is a non-executive Director and Mr. Iain F. Bruce and Mr. Barry J Buttifant are independent non-executive Directors. Mr. Chen Gang, Gordon is alternate to Dr. Fan Di.
7. The Company shall have a public float (represented by shareholdings with \* in the table) of 32.79% upon the issue of the Subscription Shares. The public float will be 33.72% upon the issue of the Subscription Shares and conversion of the Convertible Notes in full and 31.21% upon the issue of the Subscription Shares and conversion and exercise of the Convertible Notes and Option respectively in full.
8. The above table was prepared with the assumption that the Conversion Shares and Option Shares would be issued at the initial Conversion Price and Exercise Price of HK\$0.01 each and there were no adjustments in the Conversion Price and Exercise Price of the Convertible Notes and Option respectively.
9. The above table is for illustrative purpose only. The shareholding percentages may change as a result of any adjustment in the Conversion Price and Exercise Price of the Convertible Notes and Option respectively.

The Subscriber undertakes that it shall not exercise its Conversion Rights and subscription rights attaching to the Option if the exercise of such rights shall bring the public float of the Company below 25%.

The Share Subscription will result in a change of control of the Company. As the Company foresees the future dilution effect on Shareholders resulting from the issue of Conversion Shares and Option Shares, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of any conversion of the Convertible Notes or exercise of the Option in the following manner:

- (a) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth working day following the end of each calendar month and will include the following details in a tabular form:
  - (i) whether there is any conversion of the Convertible Notes during the relevant month. If there is any conversion during the relevant month, details of the conversion(s), including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;



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- (ii) whether there is any exercise of the Option during the relevant months. If there is any exercise of the Option during the relevant month, details of the exercise(s), including the exercise date, number of new Shares issued and exercise price for each exercise. If the Option is not exercised during the relevant month, a negative statement to that effect;
  - (iii) the number of shares to be issued upon conversion of the outstanding principal of the Convertible Notes and Option after the conversion of the Convertible Notes or exercise of the Option, if any;
  - (iv) the total number of Shares issued and/or cancelled pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company and/or Shares cancelled pursuant to repurchase of Shares by the Company, with a breakdown of the Shares concerned by the relevant transactions; and
  - (v) the total issued share capital of the Company announced in the previous Monthly Announcement and the total issued share capital of the Company as at the commencement and the last day of the relevant month;
- (b) in addition to the Monthly Announcement, if the cumulative number of new Shares issued pursuant to the conversion of the Convertible Notes and/or the exercise of the Option reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes and/or the Option (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes and/or the Option (as the case may be) up to the date on which the total number of Shares issued pursuant to the conversion of the Convertible Notes and/or the exercise of the Option accounted for 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes and/or the Option (as the case may be) and the Company will disclose the total issued share capital of the Company as at the date of any announcement which is published in-between any Monthly Announcement; and
- (c) should any general disclosure obligation of the Company arise under Rule 13.09 of the Listing Rules, further announcement will be made as and when appropriate.

As at the Latest Practicable Date, the Company has an aggregate of 364,920,000 outstanding share options with exercise prices in the range of HK\$0.0278 to HK\$0.1200 each. The exercise in full of the subscription rights attaching to these share options, the Convertible Notes and the Option would result in the issue of an aggregate of 4,364,920,000 Shares, which represent approximately 24.5% of the enlarged issued share capital of the Company. Save for the aforesaid, the Company has no other outstanding options, warrants, derivatives or other securities that are convertible into Shares.

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## LETTER FROM THE BOARD

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### 4. INFORMATION OF THE SUBSCRIBER

The Subscriber is a private company incorporated in the British Virgin Islands. It has not carried on any business activity since its incorporation on 12 October 2005 other than the entering into of the Subscription Agreements. The Subscriber is beneficially wholly-owned by Mr. Wong Kwan.

The Subscriber currently has two directors, namely Ms. Yip Sui Kuen Kitty and Mr. Wong Kwan. Ms. Yip Sui Kuen Kitty is a director of Pearl Oriental Corporation Ltd. and Oriental Capital Innovation Ltd., both of which are privately held companies.

Mr. Wong Kwan, aged 58, is a veteran in the investment and property development fields. He has over 30 years of experience in hotel management and investment, property investment and development, investment and operation in the healthcare business and telecommunications technology in Hong Kong, China and overseas. He is also well known in the Asian business world with extensive business connections in the Asia Pacific region. Mr. Wong Kwan was the executive director during the period from October 2003 to June 2005 and chairman & chief executive during the period from July 2004 to June 2005 of Honesty Treasure International Holdings Ltd. (formerly known as Pearl Oriental Enterprises Ltd.) and chairman, executive director and chief executive of The Sun's Group Ltd. (formerly known as Pearl Oriental Holdings Ltd.) during the period from January 1994 to January 2002, shares of which are listed on the main board of the Stock Exchange of Hong Kong Limited.

### 5. FUTURE INTENTIONS OF THE SUBSCRIBER

The Subscriber intends to continue to focus on developing the existing business of the Group in logistics which will still be the core business of the Group. The Subscriber will also review the investment portfolio of the Group and may consider to realize some of the current investment if appropriate as well as to explore new investment opportunities for the benefit of the Group when they arise, however, there is no concrete plan at this moment. The Subscriber has no plan for injection of any asset or business from the Subscriber into the Group at the present moment. The Subscriber has no intention to transfer, charge or pledge any securities of the Company acquired in pursuance of the Share Subscription, Issue of Convertible Notes and Grant of Option to any other person. The Subscriber has also no intentions to make any major change to the business, including any redeployment of the fixed assets of the Company, and to the continued employment of the employees of the Company and of its subsidiaries. It is also the intention of the Subscriber to maintain the listing of Shares of the Company on the Stock Exchange and will hold the Subscription Shares for long term investment.

As and when additional funding is required for the Group to maintain a sound and solid financial position, the Subscriber may consider exercising the Option in part or in whole and/or introduce new strategic investors to the Company when such opportunities arise, however, there is no concrete plan at this moment.

In light of the listing status of the Company, the investment and management experience of the Subscriber and the improved financial position of the Group after the completion of the Subscription Agreements, the Subscriber is confident that the performance of the Group will be further improved and considered it to be commercially justifiable in the long run to make investment in the Company through the Share Subscription, Issue of Convertible Notes and Grant of Option.

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## LETTER FROM THE BOARD

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### 6. BUSINESS REVIEW AND FUTURE PLANS OF THE GROUP

The Group is principally engaged in operating bonded warehouse, provision of logistics and related services and logistics-related property investment.

Subsequent to the divestment of the non-core businesses and disposal of the non-operating subsidiaries, the Group had a substantial improvement in its performance in the financial year ended 31 March 2006. As disclosed in the unaudited interim results, the Group recorded a growth of approximately 350% in turnover for the six months ended 30 September 2005. During the same period, the Group achieved an unaudited net profit attributable to shareholders of approximately HK\$7.4 million as compared to a net loss of HK\$13.5 million of the previous corresponding period.

Benefited from the steady growth of the global economy and the continuing improvement of the PRC's exports and imports, the demand for cross-border bonded warehousing is accelerating and thus there was a notable increase of over 50% in revenue of the Group's bonded warehouse business in the six months ended 30 September 2005. To further strengthen its well-established client network, the Group has launched tailor-made cross-border services for its customers. The Directors expect that the business of bonded warehouse shall continue to grow in the coming year.

The performance of the Group's third party logistics services, which include managing and utilizing logistics facilities, renting warehouses in regional distribution centers and subcontracting of transportation, is also remarkable in this financial year. For the first six months of operation, the Group recorded total unaudited revenue of approximately HK\$28.5 million from this business segment, which accounted for nearly 70% of the total turnover of the Group in the period. With the support from major customers such as Amway, Wal-mart, Panasonic Electronics, Jianlibao, TCL and Yile, the Directors expect that this business segment shall continue to make great contribution to the growth of the Group in the future.

The Group generally finances its operations with internally generated resources and bank facilities granted by principal bankers in the PRC and Hong Kong. As at 30 September 2005, the Group's total bank borrowings amounted to approximately HK\$86 million, which were charged with fixed interest rates and were secured by certain properties of the Group located in the PRC with a carrying value of approximately HK\$107 million. The Group's gearing ratio was 37%, as expressed as the ratio of the Group's total bank borrowings to total assets, as at 30 September 2005. As disclosed in the section of "Reasons for the Share Subscription, Issue of Convertible Notes and Grant of Option", the Plaintiff has lodged litigation against the Company and DWS in relation to a default on payment of the loan of approximately HK\$28.8 million granted to DWS. The Directors expect that the loan should be repaid in full in a short period of time and such repayment will cause a liquidity problem if no additional funding is injected into the Group. Another bank loan of approximately HK\$57.7 million is repayable in October 2006. The Directors believe that the aggregate proceeds of HK\$80 million from the Share Subscription, Issue of Convertible Notes and Grant of Option (if the Option is fully exercised) can significantly improve the financial position of the Group.

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## LETTER FROM THE BOARD

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The Group conducted its business transactions principally in Renminbi, Hong Kong dollars or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge any exchange risk.

As at 30 September 2005, the Company had given guarantees of approximately HK\$86.3 million to banks in respect of banking facilities granted to a wholly owned subsidiary and such facilities were almost fully utilized by the subsidiary.

As at the Latest Practicable Date, the number of employees of the Group was 286. The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes. Other employee benefits include meal and traveling allowances and discretionary bonuses.

### **7. TAKEOVER CODE IMPLICATIONS FOR THE SUBSCRIBER**

Since the Subscriber will hold approximately 42.4% of the enlarged issued share capital of the Company upon the issue of Subscription Shares and its shareholding in the Company will further increase to 59.5% upon full conversion and exercise of the Convertible Notes and Option respectively, it will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by the Subscriber under Rule 26.1 of the Takeovers Code unless a waiver from strict compliance with Rule 26.1 has been obtained from the Executive. The Subscriber has made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver and the Executive has indicated that the Whitewash Waiver would be granted provided that the approval of the Independent Shareholders taken by way of a poll was obtained in the SGM.

The grant of the Whitewash Waiver by the Executive is one of the conditions precedent to the Subscription Agreements which will not be waived by the Subscriber. If the Whitewash Waiver is not granted, the Subscription Agreements will lapse and the Share Subscription, Issue of Convertible Notes and Grant of Option will not proceed. If the Whitewash Waiver is granted, the Subscriber will not be required to make a mandatory general offer to the Shareholders under Rule 26 of the Takeovers Code as a result of the allotment and issue of the Subscription Shares, Conversion Shares and Option Shares.

Upon completion of the Share Subscription and full conversion and exercise of the Convertible Notes and Option respectively, the Subscriber will hold more than 50% of the enlarged issued share capital of the Company. Accordingly, so long as the minimum 25% public float requirement of the Listing Rules is observed, the Subscriber may purchase and/or subscribe for additional Shares without triggering any further obligation for a general offer under the Takeovers Code.

Other than pursuant to the Subscription Agreements, neither the Subscriber, its beneficial owner nor any party acting in concert with any of them was interested in any Shares, options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date, nor had they dealt in any securities of the Company during the six months prior to the date of the Announcement. The Subscriber, its beneficial owner and parties acting in concert with any of them have undertaken to the Company that they shall not deal in any securities of the Company until the completion of the Subscription.

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## LETTER FROM THE BOARD

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### 8. INCREASE IN AUTHORIZED SHARE CAPITAL

As at the Latest Practicable Date, the authorized share capital of the Company was HK\$80,000,000 divided into 8,000,000,000 Shares, of which 5,438,098,000 Shares were issued and credited as fully paid. The Board proposes to increase the authorized share capital of the Company from HK\$80,000,000 to HK\$300,000,000 by creation of 22,000,000,000 new Shares to facilitate the issuance of the Subscription Shares, Conversion Shares and Option Shares. The proposed increase in authorized share capital of the Company is subject to approval by the Shareholders in the SGM.

### 9. SHARE CONSOLIDATION

The Board proposed to implement the Share Consolidation pursuant to which every 50 issued and unissued Shares of HK\$0.01 each will be consolidated into one Consolidated Share of HK\$0.50. Fractional Consolidated Shares will not be issued to the Shareholders but will be aggregated and, if possible, sold for the benefits of the Company.

#### Effects of the Share Consolidation

As at the Latest Practicable Date, the authorized share capital of the Company amounted to HK\$80,000,000 comprising 8,000,000,000 Shares of HK\$0.01 each, of which 5,438,098,000 Shares have been allotted and issued as fully paid or credited as fully paid. Upon the Share Consolidation taking effect and on the basis that the Company does not allot and issue any Shares prior thereto, the authorized share capital of the Company shall become HK\$80,000,000 comprising 160,000,000 Consolidated Shares, of which 108,761,960 Consolidated Shares will be in issue.

The Consolidated Shares will rank *pari passu* in all respects with each other. Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the interests or rights of the Shareholders, save for any fractional Consolidated Shares to which the Shareholders may be entitled.

#### Conditions of the Share Consolidation

The Share Consolidation is conditional on:

- (i) the passing by the Shareholders of an ordinary resolution to approve the Share Consolidation;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares to be in issue and issued;
- (iii) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Share Consolidation, if necessary.

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## LETTER FROM THE BOARD

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### **Reasons for the Share Consolidation**

The Share Consolidation will increase the nominal value of the Shares and trading price per board lot of the Shares, which in turn will reduce the transaction and handling costs of the Company and the Shareholders whose Shares are held through CCASS. Furthermore, the Directors consider that increase in the nominal value of the Shares, which concords the recent development of both international capital markets and the local securities market in Hong Kong, can further enhance the image of the Company and may attract investments from potential international investors who normally have better appetite for high-value stocks. In light of the above, the Directors are of the view that the Share Consolidation is in the best interests of the Company and recommend the Shareholders to vote in favour of the resolution for approval of the Share Consolidation at the SGM.

### **Listing and dealings**

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares in issue upon the Share Consolidation becoming effective.

No part of the share capital of the Company is listed or dealt in on any other stock exchanges other than the Stock Exchange and no such listing or permission to deal in is being or is currently proposed to be sought from any other stock exchanges.

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **10. CHANGE IN BOARD LOT SIZE OF SHARES FOR TRADING**

Subject to completion of the Share Consolidation, the Directors also proposed to change the board lot size of the Shares from 10,000 Shares to 1,000 Consolidated Shares.

Based on the closing price of HK\$0.064 per Share as quoted on the Stock Exchange on the Latest Practicable Date and upon the Share Consolidation becoming effective, the theoretical market value of each new board lot shall be HK\$3,200 while the value of one board lot of Shares before effecting the change in board lot size and after effecting the Share Consolidation is HK\$32,000. The change in the board lot size shall allow the public to have a reasonable entry level to invest in the Consolidated Shares.



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## LETTER FROM THE BOARD

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### Arrangement on Odd Lot Trading

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares, the Company has appointed Kingsway Financial Services Group Limited to stand in the market to match the purchase and sale of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share for the period from Wednesday, 7 June 2006 to Wednesday, 28 June 2006 (both days inclusive), on a “best effort” basis. Holders of odd lots of the Consolidated Shares who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or to top up to a full board lot may contact Mr. Aman Cheung or Mr. Arthur Leung of Kingsway Financial Services Group Limited at 5/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong (telephone number: (852) 2877-1830) during the aforesaid period. Holders of odd lots of the Consolidated Shares should note that the matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed.

### Trading Arrangements

Subject to the Share Consolidation becoming unconditional, the arrangements proposed for dealings in the Consolidated Shares are expected to be as follows:

- (i) From Tuesday, 23 May 2006, the original counter for trading in the Shares in board lots of 10,000 Shares will be temporarily closed and a temporary counter for trading in the Consolidated Shares in board lots of 200 Consolidated Shares will be set up.
- (ii) With effect from Wednesday, 7 June 2006, the original counter for trading in the Shares will be reopened for trading Consolidated Shares in board lots of 1,000 Consolidated Shares.
- (iii) During Wednesday, 7 June 2006 to Wednesday, 28 June 2006 (both dates inclusive), there will be parallel trading at the above two counters.
- (iv) The temporary counter for trading in the Consolidated Shares in board lots of 200 Consolidated Shares will be removed after the close of trading on Wednesday, 28 June 2006. Thereafter, trading will be in board lots of 1,000 Consolidated Shares only and the existing certificates for the Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes. However, such certificates will remain effective as documents of title on the basis of 50 Shares for one Consolidated Share.

### Free Exchange of Share Certificates

Shareholders may exchange their share certificates of the Shares for new certificates of the Consolidated Shares on or after Tuesday, 23 May 2006. This may be done free of charge by delivering the certificates for the Shares to the Company’s branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, during the period from Tuesday, 23 May 2006 to Friday, 30 June 2006 (both dates inclusive). Thereafter, certificates for the Shares will be accepted for exchange for certificates

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## LETTER FROM THE BOARD

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for the Consolidated Shares only on payment of a fee of HK\$2.50 (or such higher amount as may be stipulated in the Listing Rules from time to time) for each new certificate to be issued or each old certificate submitted, whichever number of certificates is higher.

New certificates for the Consolidated Shares will be pink in colour in order to distinguish them from certificates for the Shares which are green in colour.

It is expected that new certificates for the Consolidated Shares will be available for collection on or after the 10th business day from the date of submission of the certificates for the Shares to the Company's branch share registrar in Hong Kong at the above address for exchange. Unless otherwise instructed, new certificates for the Consolidated Shares will be issued in board lots of 1,000 Consolidated Shares.

### **11. GENERAL MANDATE AND REPURCHASE MANDATE**

The share capital of the Company will be enlarged as a result of the Share Subscription. The General Mandate and the Repurchase Mandate will expand and replace the existing general mandates to issue and repurchase Shares which the Company currently has in place to ensure that the Subscription Shares issued in connection with the Share Subscription will be included in calculating the number of Shares which are permitted to be allotted, issued or other dealt with or repurchased by the Company under the existing general mandates to issue and purchase Shares.

The General Mandate will grant to the Directors the authority to allot and issue Shares up to an aggregate nominal value of not exceeding 20% of the share capital of the Company in issue immediately after completion of the Share Subscription or if the Share Subscription is not completed, on the date of the passing of such ordinary resolution. The Repurchase Mandate will grant to the Directors the authority to repurchase shares up to 10% of the aggregate nominal amount of Shares in issue immediately after completion of the Share Subscription or if the Share Subscription is not completed, on the date of the passing of such ordinary resolution. The Directors have no immediate plan to use the General Mandate and the Repurchase Mandate to issue or repurchase securities of the Company, but consider both mandates to be in the interests of the Company in order to provide flexibility. An explanatory statement containing the relevant information on the repurchase of securities of the Company as required by the Listing Rules is contained in Appendix IV to this circular.

### **12. SGM**

There is set out on pages 154 to 158 of this circular a notice convening the SGM to be held at Unit 3611, 36/F. West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, on Monday, 22 May 2006 at 10:00 a.m., at which resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the resolutions by way of poll in respect of the Subscription Agreements, including the Share Subscription, Issue of Convertible Notes, Grant of Option, grant of special mandate to issue the Conversion Shares and Option Shares and the Whitewash Waiver. Resolutions for the increase in authorized share capital, Share Consolidation and the granting of General Mandate and Repurchase Mandate shall also be proposed in the SGM for Shareholders' approval.



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## LETTER FROM THE BOARD

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As the Warrantor is the warrantor under the Subscription Agreements, it is deemed to be involved in the transactions under the Takeovers Code. Therefore, the Warrantor, its associates and parties acting in concert with any of them, including Farsight Holdings Limited and Mr. Chen Gang, Gordon, shall abstain from voting on the resolutions in relation to the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver at the SGM. Smooth Develop Investments Limited and Sunny State Investments Limited shall abstain from voting on the resolutions in relation to the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver in the SGM voluntarily for the benefit of the Company.

A form of proxy for use at the SGM is enclosed with this circular. In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power or authority must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### 13. POLL PROCEDURE

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

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

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

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## LETTER FROM THE BOARD

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### 14. RECOMMENDATION

The Directors are of the opinion that the Share Subscription, Issue of Convertible Notes, Grant of Option, the Whitewash Waiver, increase in authorized share capital, Share Consolidation and granting of the General Mandate and Repurchase Mandate are in the interests of the Company and the Independent Shareholders as a whole and the Directors consider that the terms of the Subscription Agreements are fair and reasonable. Accordingly, the Directors recommended you to vote in favour of all resolutions to be proposed at the SGM.

All Directors who have interests in the Shares and are not required to abstain from voting on the resolutions proposed at the SGM, including Dr. Robert Fung Hing Piu, Mr. Barry J. Buttifant and Mr. Iain F. Bruce, have indicated that they would, in respect of their own beneficial shareholdings, vote in favour of all resolutions to be proposed at the SGM.

### 15. GENERAL

Your attention is drawn to the letters from the Independent Board Committees set out on pages 32 to 33 of this circular and the letter of advice received from the Independent Financial Adviser on pages 34 to 61 of this circular. Your attention is also drawn to the additional information set out in the appendices to this circular.

The Board strongly advises the Independent Shareholders to read each of these letters and the appendices before reaching a decision in respect of the resolutions to be proposed at the SGM.

Yours faithfully,  
By the order of the Board  
**China Merchants DiChain (Asia) Limited**  
**Zhou Li Yang**  
*Managing Director*



**CHINA MERCHANTS DICHAIN (ASIA) LIMITED**

**招商迪辰(亞洲)有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 0632)**

4 May 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**SUBSCRIPTION OF NEW SHARES  
ISSUE OF CONVERTIBLE NOTES  
GRANT OF OPTION TO SUBSCRIBE FOR NEW SHARES  
APPLICATION FOR WHITEWASH WAIVER**

As the IBC (Takeovers Code), we have been appointed to advise you in connection with the Subscription Agreements and the Whitewash Waiver, details of which are set out in the Letter from the Board contained in this circular to the Shareholders dated 4 May 2006, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Subscription Agreements and the Whitewash Waiver and the advice of the Independent Financial Adviser in relation thereto as set out on pages 34 to 61 of this circular, we are of the opinion that the terms of the Subscription Agreements and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription Agreements and the Whitewash Waiver.

Yours faithfully,

For and on behalf of

**IBC (Takeovers Code)**

**Barry J. Buttifant Iain F. Bruce Victor Yang Robert Fung Hing Piu**



**CHINA MERCHANTS DICHAIN (ASIA) LIMITED**

**招商迪辰（亞洲）有限公司**

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 0632)**

4 May 2006

*To the Independent Shareholders*

Dear Sir or Madam,

**SUBSCRIPTION OF NEW SHARES  
ISSUE OF CONVERTIBLE NOTES  
GRANT OF OPTION TO SUBSCRIBE FOR NEW SHARES**

As the IBC (Listing Rules), we have been appointed to advise you in connection with the Subscription Agreements, details of which are set out in the Letter from the Board contained in this circular to the Shareholders dated 4 May 2006, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Subscription Agreements and the advice of the Independent Financial Adviser in relation thereto as set out on pages 34 to 61 of this circular, we are of the opinion that the terms of the Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the resolutions to be proposed at the SGM to approve the Subscription Agreements.

Yours faithfully,

For and on behalf of

**IBC (Listing Rules)**

**Barry J. Buttifant    Iain F. Bruce    Victor Yang**

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from Kingston to the Independent Board Committees and the Independent Shareholders prepared for the purpose of inclusion of this circular.*



**KINGSTON CORPORATE FINANCE LIMITED**

Kingston Corporate Finance Limited  
Suite 2801, 28th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

4 May 2006

*To: The Independent Board Committees and the Independent Shareholders*

Dear Sirs,

**SUBSCRIPTION OF NEW SHARES  
ISSUE OF CONVERTIBLE NOTES  
GRANT OF OPTION TO SUBSCRIBE FOR NEW SHARES  
AND  
APPLICATION FOR WHITEWASH WAIVER**

### **INTRODUCTION**

We refer to our appointment by the Company as the independent financial adviser to advise the Independent Board Committees and the Independent Shareholders in relation to the terms of the Share Subscription, Issue of Convertible Notes, Grand of Option and the Whitewash Waiver, details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular dated 4 May 2006 issued by the Company to the Shareholders and the holders of share options (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 23 March 2006, the Company and the Subscriber jointly announced that the Conditional Agreement and the Supplemental Agreement were entered into on 22 February 2006 and 20 March 2006 respectively to effect the transactions involving (i) the conditional subscription of 4,000,000,000 Subscription Shares by the Subscriber at a price of HK\$0.01 per Subscription Share; (ii) the issue of the Convertible Notes in the principal amount of HK\$30,000,000 by the Company to the Subscriber; and (iii) the grant of the Option to the Subscriber for a consideration of HK\$10 to subscribe for not more than 1,000,000,000 Option Shares with an initial Exercise Price of HK\$0.01 per Option Share (the “Transactions”).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Immediately following the completion of Share Subscription, the Subscriber will be interested in approximately 42.38% of the enlarged issued share capital of the Company and the Subscriber's shareholding in the Company will further increase to approximately 59.53% upon full exercise of the Convertible Notes and the Option. Accordingly, the Subscriber will be obliged to make an unconditional mandatory general offer under Rule 26.1 of the Takeovers Code for all issued Shares (other than those Shares already owned or agreed to be acquired by the Subscriber and parties acting in concert with it). In this regard, the Subscriber has made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that he will grant the Whitewash Waiver to the Subscriber and parties acting in concert with it subject to the approval of the Independent Shareholders of the Whitewash Waiver on a vote taken by way of a poll at the SGM.

The entering into of the Subscription Agreements is subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM. As DiChain Holdings Limited, the substantial Shareholder, is the Warrantor under the Subscription Agreements, DiChain Holdings Limited is deemed to be involved in the Transactions under the Takeovers Code. Accordingly, the Warrantor, its associates and parties acting in concert with any of them, including Farsight Holdings Limited and Mr. Chen Gang, Gordon, shall abstain from voting on the relevant resolutions in relation to the Transactions and the Whitewash Waiver at the SGM. In addition, Smooth Develop Investments Limited ("Smooth Develop") and Sunny State Investments Limited ("Sunny State") (together, the "Investors") shall abstain voluntarily for the benefit of the Company from voting on the relevant resolutions in relation to the Transactions and the Whitewash Waiver at the SGM.

Pursuant to the terms of the Subscription Agreements, the Transactions are conditional upon, amongst other things, the fulfilment of the following conditions:

- the granting of the Whitewash Waiver by the Executive;
- the approval of the Transactions and the Whitewash Waiver on a vote taken by way of a poll by the Independent Shareholders at the SGM; and
- the Subscriber being satisfied with the results of the due diligence review conducted on the Group by 10 April 2006.

Our role as the Independent Financial Adviser is to give our opinion as to whether the terms of the Subscription Agreements and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and whether or not the Independent Shareholders should vote in favour of the ordinary resolutions to approve the Transactions and Whitewash Waiver in connection with the Subscription Agreements at the SGM.

Pursuant to the Takeovers Code, Dr. Robert Fung Hing Piu, a non-executive Director, and all the independent non-executive Directors, namely Messrs. Barry J. Buttifant, Iain F. Bruce and Victor Yang have been appointed as members of the IBC (Takeovers Code) to consider

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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and advise the Independent Shareholders in relation to the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver. Dr. Robert Fung Hing Piu is deemed to be interested in more than 1% of the issued share capital of the Company; however, he has confirmed that he has no material interest in the Transactions and the Whitewash Waiver. Messrs. Barry J. Buttifant, Iain F. Bruce and Victor Yang, have also confirmed that they have no material interest in the Transactions and the Whitewash Waiver. Therefore, Dr. Robert Fung Hing Piu, Messrs. Barry J. Buttifant, Iain F. Bruce and Victor Yang are considered to be independent and suitable for acting as a member of the IBC (Takeovers Code). The other non-executive Director, Mr. Wang Shizhen, was a director of DiChain Holdings Limited within the preceding two years and thus he is not considered to be independent and suitable for acting as a member of the IBC (Takeovers Code); whereas other Directors are also considered not appropriate to be members of the IBC (Takeovers Code) as the executive Directors are either involved in the negotiations of the Transactions, salaried Directors or interested in the Transactions.

Pursuant to Rule 13.39 of the Listing Rules, the independent board committee established for the purpose of advising transactions that are subject to independent shareholders' approval shall consist only of independent non-executive directors. Therefore, the IBC (Listing Rules), comprising only the independent non-executive Directors, namely Messrs. Barry J. Buttifant, Iain F. Bruce and Victor Yang, has been established to consider and advise the Independent Shareholders in relation to the Share Subscription, Issue of Convertible Notes and Grant of Option.

We, Kingston, are not associated with the Company, the substantial Shareholders, the Subscriber or any party acting, or presumed to be acting, in concert with any of them, and accordingly, are considered suitable to give independent advice on the Transactions and the Whitewash Waiver. Apart from the normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the substantial Shareholders, the Subscriber or any party acting, or presumed to be acting, in concert with any of them.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committees and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company and the Subscriber, or their respective subsidiaries or associated companies or the prospects of the industry sector in which the Group operates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect to the Share Subscription, Issue of Convertible Notes, Grant of Option and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

#### 1. Background to and reasons for the Transactions

##### (a) Information on the Group

###### (i) *Business review of the Group*

As stated in the annual report of the Company for the year ended 31 March 2005 (the “Annual Report”) and the interim report of the Company for the six months ended 30 September 2005 (the “Interim Report”), the Group underwent restructuring with major focus on the logistics industry and disposal of the Group’s non-core business, being the trading of electronic household appliances in March 2005; and its non-operating subsidiaries, Dransfield Holdings Limited (“DHL”) and DHL’s subsidiaries in July 2005. The Group is now principally engaged in operating bonded warehouses, provision of logistics and related services and logistics-related property investment.

As depicted from the table under “(ii) Financial Performance of the Group” below, the turnover generated from the Group’s bonded warehouse and other logistics operation increased by approximately 51.7% for the six months ended 30 September 2005 as compared to the same period last year. As stated in the Interim Report, the increase was benefiting from the steady growth of the global economy and the improvement of the PRC’s exports and imports and the increasing demand for cross-border bonded warehousing and the Group’s ability to capture the said opportunity. As advised by the Directors, the management of the Group has taken various measures to expand its services scopes and to secure its quality customers and with the aim for higher profit margin, the Group has also taken measures to seek more quality customers, covering high-valued industries such as IT and fast moving consumer goods industries, who are in need for more integrated and better quality logistics services for their high value goods. The Directors advised that the utilisation rates of the Group’s warehouse improved from around 60% in 2003 to around 70% in 2004 and to around 80% in 2005.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In alignment with its strategic mission to provide integrated logistics services, the Group endeavoured to expand its third-party logistics operations and networks since the acquisition of Guangzhou DiChain Logistics Co. Ltd. in November 2004. The Group's nationwide third-party logistics networks cover the major economically affluent areas in the PRC, including Guangzhou, Shanghai, Hangzhou, Beijing, Tianjing, Harbin and Shenyang. The Group's third-party logistics services include managing and utilising logistics facilities, renting warehouses in regional distribution centres and subcontracting of transportation. As depicted from the table under "(ii) Financial Performance of the Group" below, it had become the major revenue source of the Group.

**(ii) Financial performance of the Group**

*Profit and losses*

The table below tabulates the financial results of the Group for the two years ended 31 March 2005 and the six months ended 30 September 2004 and 30 September 2005 as extracted from the Annual Report and the Interim Report:

	Year ended 31 March		Six months ended	
			30 September	
	2005	2004	2005	2004
	(audited)	(audited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	34,145	27,769	41,045	9,097
Third Party Logistics	15,358	–	28,513	–
Bonded Warehousing and other logistics	17,516	13,713	12,532	8,260
Sales of electronic household appliances	1,271	2,991	–	837
Sales of Edible Oil and Food and Beverage	–	11,065	–	–
Profit (loss) before taxation	(18,003)	11,458	8,260	(13,334)
Profit (loss) attributable to shareholders	(18,421)	14,262	7,623	(13,453)

As illustrated from the table above, the Group had recorded growth in terms of turnover during the year ended 31 March 2005 under review. For the year ended 31 March 2005, the Group recorded turnover of approximately HK\$34.1 million, representing an increase of approximately 22.7% over the same period in 2004 mainly due to the commencement of third-party logistics operations in November 2004 and the increase in turnover of Bonded Warehousing and other logistics

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operation which outgrows the decrease in turnover as a result of discontinuation of non-core businesses. As stated in the Annual Report, the Group's gross profit increased by 39.9% from HK\$8.9 million for the year ended 31 March 2004 to HK\$12.5 million for the year ended 31 March 2005 while the Group made a turn from net profit position to net loss position. The Directors advised that the gross profit increase was mainly due to the discontinuation of the sales of Edible Oil and Food and Beverage while the net profit position for the year ended 31 March 2004 was mainly due to certain gain on disposal of investments in securities and unrealised holding gain on investments in securities amounting to approximately HK\$23.2 million for the said year.

As illustrated from the table above, the Group had recorded continuous growth in terms of turnover during the six months period ended 30 September 2005 under review. For the six months ended 30 September 2005, the Group recorded turnover of approximately HK\$41.0 million, representing an increase of approximately 3.51 times over the same period in 2004 contributed from the continuing improvement of the Group's bonded warehouse and third-party logistics operations. As stated in the Interim Report, the Group's third-party logistics services recorded turnover of approximately HK\$28.5 million and accounted for nearly 70% of the total turnover of the Group and according to the Directors, the Group's third-party logistics services recorded profit of HK\$1.3 million as compared to nil for the same period in 2004. During the six months ended 30 September 2005, the Group made a turn around from net loss position to net profit position mainly attributed from the one-off gain on disposal of its non-operating subsidiaries which was in line with the Group's plan of consolidating its business and streamlining operations and headcount. We have enquired into the Directors and have been advised that the Directors expect that third-party logistics services shall continue to be the Group's revenue drive. We have researched into the internet ([www.ewise.com.cn](http://www.ewise.com.cn) and [www.cnexp.net](http://www.cnexp.net)) and have found some logistics-related industry reports. Our findings are that the PRC's logistics market size growth rates were approximately 25% for 2005, approximately 29.9% for 2004 and approximately 25.4% for 2003; and the PRC's third-party logistics market size had grown and will grow at an annual rate of around 16 to 25% from 2002 to 2012. In addition to our research above, we noted that the turnover of the Group's third-party logistics was HK\$28.5 million for the six months ended 30 September 2005 as compared to HK\$15.4 million for the year ended 31 March 2005 (Note: the Group's third-party logistics operation only commenced in November 2004 and therefore it had only been operated for around 5 months during the said year end), which shown a significant growth. In light of the above, we concur with the Directors that third-party logistics services shall continue to be the Group's revenue drive.

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### *Balance sheets*

The table below tabulates summary of the audited assets and liabilities as at 31 March 2005 and the unaudited assets and liabilities as at 30 September 2005 of the Group:

	<b>As at 31 March 2005 (audited) (restated) HK\$'000</b>	<b>As at 30 September 2005 (unaudited) HK\$'000</b>
Non-current assets excluding goodwill	120,850	121,343
Goodwill	1,884	1,884
Current assets	120,275	108,985
Current liabilities	(117,777)	(97,458)
Non-current liabilities	(46)	–
Net assets	125,186	134,754
Net tangible assets	123,302	132,870

As depicted from the table above, the Group's net assets value ("NAV") enlarged by approximately 7.7% from approximately HK\$125.2 million as at 31 March 2005 to approximately HK\$134.8 million as at 30 September 2005 and its net tangible assets value ("NTAV") increased by approximately 7.8% from approximately HK\$123.3 million as at 31 March 2005 to approximately HK\$132.9 million as at 30 September 2005. The main reason for the above increase was that the Group generated net profit of approximately HK\$7.3 million for the six months ended 30 September 2005. In addition, according to the Interim Report, the Group's bank balances and cash dropped from approximately HK\$4.2 million as at 31 March 2005 to approximately HK\$0.7 million as at 30 September 2005. We have enquired into the Directors and the Directors advised that, which we concur, there is no implication when the NTAV increase and the bank balances and cash decrease.

As at 30 September 2005, the Group's current assets of approximately HK\$109.0 million comprised mainly trade and other receivables of approximately HK\$23.4 million, deposit paid for a possible acquisition of a logistic company with operation in Yixing of the PRC of approximately HK\$42.0 million, loans receivable of approximately HK\$30.4 million which bear interest from 4% to 5% per annum, investment in securities of approximately HK\$8.3 million and amounts due from investees of approximately HK\$3.7 million which is interest free, representing approximately 46.9% of the Group's total assets. The Directors advised that the loans receivable have due dates ranging from 30 June 2006 to 26 September 2007 while the amounts due from investees have no fixed terms of repayment. We have

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enquired into the Directors and the Directors have advised us that as far as they are aware, they are of the view that the above stated loans receivable and amounts due from investees are recoverable but there will be no early repayment.

The Group generally finances its operations by internal resources and bank facilities granted by its principal bankers in the PRC and Hong Kong. As at 30 September 2005, the Group's total bank borrowings amounted to approximately HK\$86.3 million. Based on such balances, the Group's gearing ratio (being total borrowings divided by NTAV) was approximately 64.9% as at 30 September 2005. Furthermore, a litigation was lodged against the Company and its subsidiary, DiChain Logistic Services (Shenzhen) Co., Ltd. ("DWS") by Guangdong Development Bank, Shenzhen Xiangmihu Branch (the "Plaintiff") in relation to a default on payment of a loan of approximately HK\$28.8 million granted by the Plaintiff to DWS (the "Litigation"). As advised by the Directors, in addition to the loan owed to the Plaintiff, the Company has outstanding payables of approximately HK\$3.5 million which are due for immediate payment and bank borrowings from Shenzhen Commercial Bank, Shekou Branch, the PRC (the "Creditor") of approximately HK\$57.7 million (RMB60.0 million) repayable on 28 October 2006. As at 30 September 2005, the Group's trade and other payables amounted to approximately HK\$10.6 million.

In light of the Group's severe liquidity pressure and dire financial position, we are of the opinion that the Group is in urgent need to raise funds in order to support its existing operations.

### **(b) Information on the Subscriber and Mr. Wong Yuk Kwan (alias: Mr. Wong Kwan)**

As referred to in the Board Letter, the Subscriber has not carried any business activities since its incorporation on 12 October 2005 other than entering into of the Subscription Agreements. The Subscriber is a private company incorporated in the British Virgin Islands and is beneficially wholly-owned by Mr. Wong Kwan. The Subscriber currently has two directors, namely Mr. Wong Kwan and Ms. Yip Sui Kuen Kitty.

As referred to in the Board Letter, Mr. Wong Kwan has over 30 years of experience in hotel management and investment, property investment and development, investment and operation in the healthcare business and telecommunications technology in Hong Kong, the PRC and overseas.

### **(c) The Subscriber's future intentions in relation to the Group**

As referred to in the Board Letter, upon Completion, the Subscriber intends to maintain the Group's existing business operations in logistics which will still be the core business of the Group. We were further advised by the Directors that the Subscriber will conduct a detailed review of the Group's financial position and operations and will assist the Directors to decide on any business strategies, rationalisations and/or diversifications would be appropriate for the Group with a view to strengthen the operations and future development of the Group. The Subscriber has no plan for injection of any asset or business from the Subscriber into the Group at the present moment.

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Upon Completion, Dr. Fan Di, Messrs. Chen Gang, Gordon, Wang Shizhen, Barry J. Buttifant and Iain F. Bruce shall resign from the Board while Dr. Robert Fung Hing Piu, Messrs. Zhou Li Yang, Zheng Yingsheng and Victor Yang shall remain as Directors on the Board. Dr. Fan Di shall be invited to become a senior consultant of the Company after his resignation from the Board. Pursuant to the Subscription Agreements, the Subscriber shall have the right to nominate no less than two executive Directors and two independent non-executive Directors to the Board. Upon Completion, Mr. Wong Kwan will be appointed as chairman, executive Director and chief executive of the Company.

### **(d) Other financing alternatives**

As advised by the Directors and referred to in the Board Letter, the Company has not conducted any fund raising activity during the past 12 months except the proposed issue of convertible notes and grant of option as announced by the Company on 5 December 2005, which had already been terminated as announced on 24 February 2006.

We have enquired into the Directors of other methods in order for the Group to raise capital to meet its financial requirements. In this regard, the Directors advised that, based on (i) the current high gearing level of the Group; (ii) the lack of valuable assets for the Group to pledge against its bank borrowings; (iii) the lack of track record for the Group's new positioning to focus on logistics as its core business; and (iv) the recent uprising trend of the interest rate in Hong Kong, it would be difficult for the Group to obtain additional borrowings/debts with favourable terms.

Apart from bank financing, common means of equity financing include open offer and rights issue. Although both open offer and rights issue allow the Shareholders to maintain their respective pro-rata shareholdings in the Company, the Directors were of the view that an underwriter will typically require a commission of around 2% of funds underwritten and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. In contrast, there are no force majeure clause included in the Subscription Agreements. Furthermore, given the present financial position of the Group, the Group would have difficulties in procuring commercial underwriting. Thus, we consider it is reasonable for the Group to seize the first available funding opportunity by way of the Share Subscription, Issue of Convertible Notes and Grant of Option given the difficulty in procuring commercial underwriting. Moreover, the Directors have advised us that the Subscriber intends to inject funds directly into the Group in return for a fixed number of shares and has no interest in acting as a underwriter and taking on the uncertainties inherent in that role. As for the existing substantial Shareholders, the Directors have advised us that they too have no interests in underwriting a rights or similar issue.

In light of the above, we consider that the Transactions are acceptable and equitable means to raise funds for the Group as the Transactions would provide a feasible, cost-effective and time-effective fund raising alternative to the Group.

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### (e) Reasons for the Transactions and use of proceeds

As referred to the Board Letter and aforementioned, the Litigation was lodged against the Company and DWS by the Plaintiff. In addition to the Litigation, other bank borrowings from the Creditor amounted to approximately HK\$57.7 million is expected to be due in October 2006. Furthermore, we have enquired into the Directors and have been advised that the news on the Litigation may prompt possible financial difficulties to the Group as it may trigger demand for immediate payment by Group's other creditors.

We consider that, given the Group's present dire financial position, the immediate need to relief the Group's tight cash position and possible financial difficulties which may be prompted from the Litigation as referred to above, the Group requires a larger capital base and financial capabilities to meet the Group's current funding needs and that it is commercially sensible for the Company to raise funds at the earliest opportunity to the extent it is in the power to do so. In this regard, we note as referred to the Board Letter, the Share Subscription and Issue of Convertible Notes will raise estimated net proceeds of approximately HK\$69.6 million, approximately HK\$30.0 million of which shall be used for the settlement of the Litigation while the balance of the proceeds and the proceeds expected to be received assuming upon exercise in full of the Option of approximately HK\$10.0 million by the Subscriber shall also be applied for general working capital of the Group.

In addition, the Directors believe that the joining of Mr. Wong Kwan to the Board with his extensive experience and business connections can facilitate the business development of the Group and further improve the profile of the Group.

In light of the above, we are of the view that the Transactions are the only feasible proposal for the Company to relieve the Group's immediate funding needs. Accordingly, we are of the view that the Transactions and the use of proceeds from the Transactions are in the interests of the Company and the Shareholders as a whole.

## 2. Principal terms of the Transactions

### *The Transactions*

The following summarises the principal terms of the Share Subscription, Issue of Convertible Notes and Grant of Option (details of which are set out in the Board Letter):

#### (a) The Share Subscription

Pursuant to the Subscription Agreements, the Company will allot and issue to the Subscriber a total of 4,000,000,000 new Shares at a price of HK\$0.01 per Subscription Share. The Share Subscription will generate gross proceeds of HK\$40.0 million in cash for the Group.

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The Subscription Shares represent approximately 73.56% of the existing issued share capital of the Company and approximately 42.38% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. The Subscription Shares will rank pari passu in all respects with the Shares in issue as at the date of allotment and issue of the Subscription Shares.

### **(b) Issue of Convertible Notes**

Pursuant to the Subscription Agreements, subject to the completion of the Share Subscription, the Company agreed to issue to the Subscriber the Convertible Notes in a principal amount of HK\$30.0 million with an initial Conversion Price HK\$0.01 per Conversion Share, subject to adjustments (details of which are set out in Appendix VI to this circular). The Convertible Notes will bear interest from the date of issue at the rate of 4% per annum on the outstanding principal amount of the Convertible Notes which will be payable by the Company quarterly in arrears. The maturity of the Convertible Notes will be date falling two years after the date of the issue of the Convertible Notes.

The number of Conversion Shares to be issued upon full conversion of the Convertible Notes will be 3,000,000,000 Shares representing approximately 55.17% of the existing share capital of the Company and approximately 24.12% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the exercise in full of the Convertible Notes. The Conversion Shares to be issued upon conversion of the Convertible Notes will rank pari passu in all respects with the Shares in issue on the date of conversion.

### **(c) Grant of Option**

Pursuant to the Subscription Agreements, subject to the completion of the Share Subscription, the Company will also grant to the Subscriber the Option at a cash consideration of HK\$10 to subscribe for not more than 1,000,000,000 Option Shares with an initial exercise price of HK\$0.01 per Option Share. The Option may be exercised by the Subscriber at any time during the period immediately after Completion to the date falling two years after Completion. Upon full exercise of the Option, the Option will generate gross proceeds of HK\$10.0 million to the Company.

Upon full exercise of the Option, the 1,000,000,000 Option Shares will represent approximately 18.39% of the existing share capital of the Company and approximately 7.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, the exercise in full of the Convertible Notes and the Option. The Option Shares will rank pari passu in all respects with all other existing Shares outstanding as at the date of issue and allotment.



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Further to the above, under the terms of the Subscription Agreements, the Warrantor provided an undertaking that it shall procure the Creditor to terminate or cancel all the guarantees provided by the Company for the loan from the Creditor of approximately HK\$57.7 million (RMB60.0 million) which is repayable on 28 October 2006, granted to DiChain Logistics Services (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company and relief the Company's obligations thereof within one year after Completion. The Warrantor further agreed to pledge 1,000,000,000 Shares, beneficially owned by the Warrantor and its associates, free from all and any encumbrances, to the Solicitors as collateral until all the guarantees of provided by the Company have been terminated or cancelled.

### *The Subscription Price, the Conversion Price and the Exercise Price (the "Issue Price")*

The Issue Price of HK\$0.01 per Subscription Share, Conversion Share and Option Share or HK\$0.50 per consolidated Subscription Share ("Consolidated Subscription Share"), consolidated Conversion Share ("Consolidated Conversion Share") and consolidated Option Share ("Consolidated Option Share") (assuming the Share Consolidation has become effective as at 31 March 2005) ("Consolidated Issue Share") represents:

- (a) a discount of approximately 67.74% to the closing price of HK\$0.0310 per Share or HK\$1.5500 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as quoted on the Stock Exchange on 20 February 2006 (being the last trading day prior to the suspension of trading in Shares on 20 February 2006 pending the issue of the Announcement) (the "Last Trading Day");
- (b) a discount of approximately 64.29% to the average closing prices of the Shares of HK\$0.0280 per Share or HK\$1.4000 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Day;
- (c) a discount of approximately 65.87% to the average closing prices of the Shares of HK\$0.0293 per Share or HK\$1.4650 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as quoted on the Stock Exchange on the last ten trading days up to and including the Last Trading Day;
- (d) a discount of approximately 84.38% to the closing price of HK\$0.0640 per Share or HK\$3.2000 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as quoted on the Stock Exchange on the Latest Practicable Date;
- (e) a discount of approximately 56.52% to the price of disposal of Shares of HK\$0.015 or HK\$0.7500 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) by the Warrantor to the Investors on 20 February 2006;



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- (f) discounts of approximately 56.52% and 56.56% to the audited NAV of approximately HK\$0.0230 per Share and HK\$1.1510 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as at 31 March 2005 respectively;
- (g) discounts of approximately 59.68% and 59.64% to the unaudited NAV of approximately HK\$0.02418 per Share and HK\$1.2390 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as at 30 September 2005 respectively; and
- (h) discounts of approximately 59.02% and 59.07% to the unaudited NTAV of approximately HK\$0.0244 per Share and HK\$1.2217 per Consolidated Share (assuming the Share Consolidation has become effective as at 31 March 2005) as at 30 September 2005 respectively.

The Issue Price has been determined after arm's length negotiation between the Company and the Subscriber. As stated in the Board Letter, the Directors consider the terms of the Transactions to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

- (i) Review on Share prices

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 22 March 2005 (being one year preceding the date of the Announcement) up to and including the Latest Practicable Date (the "Review Period") are shown as follows:

<b>Month</b>	<b>Highest closing price (HK\$)</b>	<b>Lowest closing price (HK\$)</b>	<b>Average daily closing price (HK\$)</b>
<b>2005</b>			
March ( <i>Note 1</i> )	0.067	0.063	0.066
April	0.070	0.064	0.067
May	0.066	0.060	0.063
June	0.071	0.063	0.068
July ( <i>Note 2</i> )	0.065	0.045	0.060
August ( <i>Note 2</i> )	0.066	0.062	0.064
September	0.075	0.060	0.067
October	0.061	0.044	0.053
November ( <i>Note 3</i> )	0.051	0.045	0.048
December ( <i>Note 3</i> )	0.046	0.036	0.040

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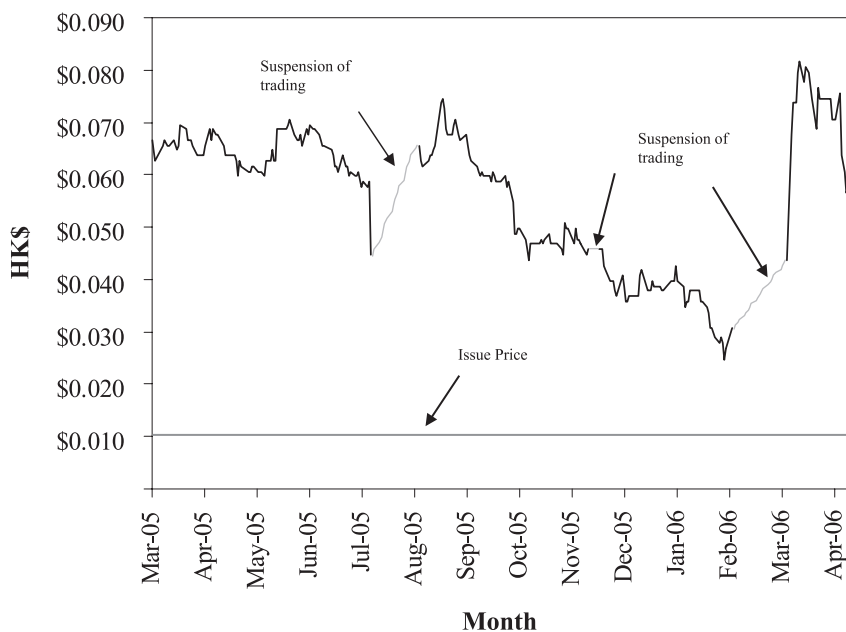
Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Average daily closing price (HK\$)
<b>2006</b>			
January	0.043	0.035	0.039
February (Note 4)	0.038	0.025	0.031
March (Note 4)	0.076	0.062	0.070
April	0.076	0.069	0.071
May (up to and including the Latest Practicable Date)	0.066	0.058	0.064

Source: www.hkex.com.hk

Notes:

1. Since 22 March 2005
2. Trading in the Shares was suspended from 28 July 2005 to 23 August 2005
3. Trading in the Shares was suspended from 30 November 2005 to 5 December 2005
4. Trading in the Shares was suspended from 21 February 2006 to 23 March 2006

Set out below is the graph showing the historical closing prices of the Shares as quoted on the Stock Exchange versus the Issue Price during the Review Period:



Source: www.hkex.com.hk

During the Review Period, the Shares have been trading above the Issue Price. We note from the above chart that the closing price of the Shares has been generally on a descending trend during period from 22 March 2005 up to the Last Trading Day. On 24

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March 2006, the Group announced the Transactions and being the first day of resumption of trading of the Shares since the Last Trading Day, the closing price of the Shares surged by approximately 41.94% to HK\$0.044 per Share from HK\$0.031 per Share on 20 February 2006 (the Last Trading Day). Since 24 March 2006 and up to the Latest Practicable Date, the closing price of the Shares has been on an overall upward trend which is likely due to the positive response to the Transactions. During the Review Period, the Shares have been trading in the range of HK\$0.025 per Share to HK\$0.082 per Share.

(ii) Review on trading liquidity of the Shares

The total trading volume, number of trading days, average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to the total number of issued Shares held by the public as at the Latest Practicable Date and the total number of issued Shares as at the Latest Practicable Date during the Review Period are shown as follows:

Month	Total trading volume <i>Shares</i>	Number of trading days	Average daily trading volume (the "Average Volume") <i>Shares</i>	% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date <i>(Note 1)</i> %	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 2)</i> %
<b>2005</b>					
March <i>(Note 3)</i>	101,080,000	6	16,846,667	0.54%	0.31%
April	217,352,000	20	10,867,600	0.35%	0.20%
May	99,464,000	20	4,973,200	0.18%	0.09%
June	191,582,000	22	8,708,273	0.28%	0.16%
July <i>(Note 4)</i>	193,610,000	18	10,756,111	0.35%	0.20%
August <i>(Note 4)</i>	494,831,334	6	82,471,889	2.66%	1.52%
September	894,383,000	21	42,587,524	1.38%	0.78%
October	139,380,000	20	6,969,000	0.23%	0.13%
November <i>(Note 5)</i>	142,076,000	21	6,765,524	0.22%	0.12%
December <i>(Note 5)</i>	134,330,000	17	7,901,765	0.26%	0.15%
<b>2006</b>					
January	294,014,000	19	15,474,421	0.50%	0.28%
February <i>(Note 6)</i>	434,320,000	14	31,022,857	1.00%	0.57%
March <i>(Note 6)</i>	2,436,562,000	6	406,093,667	13.12%	7.47%
April	1,248,272,000	17	73,427,765	2.37%	1.35%
May (up to and including the Latest Practicable Date)	49,794,000	1	49,794,000	1.61%	0.92%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

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*Notes:*

1. Based on 3,094,804,950 Shares held in public hands as at the Latest Practicable Date
2. Based on 5,438,098,000 Shares in issue as at the Latest Practicable Date
3. Since 22 March 2005
4. Trading in the Shares was suspended from 28 July 2005 to 23 August 2005
5. Trading in the Shares was suspended from 30 November 2005 to 5 December 2005
6. Trading in the Shares was suspended from 21 February 2006 to 23 March 2006

In general, the trading volume of the Shares were relatively thin as tabulated above and in most of the months during the Review Period, less than 1% of the issued Shares held in public hands were traded. In August 2005 and March 2006, trading in the Shares was exceptionally high, in particular, following the release of announcements in respect to a litigation against the Company in connection with the judgement debt allegedly owed by DHL, a former subsidiary of the Company, and clarifications that DHL was no longer a subsidiary of the Company since 23 July 2005; and the Transactions respectively. Both months experienced suspension of trading in the Shares for more than 10 days. In September 2005, there was a significant exceptional increase of trading volume in two days namely on 5 September 2005 and 6 September 2005.

In light of the above and taking into account the low liquidity of the trading volume of the Shares, we note that the significant increase of trading volume and Share price after the Last Trading Day may imply that the investors generally welcome the introduction of the Subscriber as a strategic investor and assists the Group in raising immediate funding to the Group.

(iii) Comparison with other subscription of new shares

For the purpose of assessing the fairness and reasonableness of the Issue Price, we have looked into all the recent transactions announced by the main board listed companies on the Stock Exchange for the period from 22 December 2005 to 23 March 2006, being the three-months period immediately before the date of the Announcement involving the subscription of new shares and to the best of our knowledge, have identified totally 10 such transactions (the “Market Comparables”). We notice that the business activities of the Market Comparables save and except for Seapower Resources International Limited (“Seapower”), are not directly comparable to those carried out by the Group. Although Seapower is principally engaged in the operation of cold storage warehousing and logistics management which is related to logistics business, the purpose of its fund raising in March 2006 is to apply the net proceed from the subscription of new shares for part of its acquisition plan and is different from the Group’s purpose of relieving itself from possible financial difficulties which may be prompted by the Litigation. We consider that an industry comparison would not be relevant to the terms of subscription of new shares by listed companies as the terms of subscription of new shares are largely determined by reference to the stock market conditions and are specific to the individual company and

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that the adoption of such a three-month period in our analysis is appropriate as it provides an insight on the recent terms of subscription of new shares by other listed companies under similar market environment. Details of the Market Comparables are summarised in the below table:

Date of announcement	Company name (Stock code)	Particulars	Gross proceeds <i>(HK\$' million)</i>	Premium/ (discount) of subscription price over/to closing price of the last trading day immediately prior to the date of the respective announcement	Premium/ (discount) of subscription price over/to average closing price for the ten trading days up to and including last trading day immediately prior to the date of the respective announcement
23 December 2005	Vision Grande Group Holdings Limited (2300) <i>(Note 1)</i>	Subscription of new shares	70.0	(20.8)%	(17.0)%
23 December 2005	Vision Grande Group Holdings Limited (2300) <i>(Note 1)</i>	Subscription of new shares	240.0	(52.8)%	(50.6)%
1 February 2006	Wing Shing International Holdings Limited (850)	Subscription of new shares	9.9	(17.5)%	(18.7)%
3 February 2006	Sino Prosper Holdings Limited (766)	Subscription of new shares	39.8	19.4%	27.0 %
14 February 2006	Karl Thomson Holdings Limited (7)	Subscription of new shares	58.5	(10.9)%	18.6%
17 February 2006	Prime Investments Holdings Limited (721)	Subscription of new shares	8.0	(72.4)%	(69.5)%
7 March 2006	Heritage International Holdings Limited (412)	Subscription of new shares	9.4	0.0%	38.9%
10 March 2006	Lai Fung Holdings Limited (1125)	Subscription of new shares	644.0	(7.0)%	3.5%

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Date of announcement	Company name (Stock code)	Particulars	Gross proceeds <i>(HK\$' million)</i>	Premium/ (discount) of subscription price over/to closing price of the last trading day immediately prior to the date of the respective announcement	Premium/ (discount) of subscription price over/to average closing price for the ten trading days up to and including last trading day immediately prior to the date of the respective announcement
10 March 2006	Seapower (269)	Subscription of new shares	25.0	(17.9)%	(14.1)%
21 March 2006	Hi Sun Technology (China) Limited (818)	Subscription of new shares	96.4	(19.8)%	(14.6)%
	<b>Median</b>			(17.7)%	(14.3)%
	<b>Range</b>			(72.4)% to 19.4%	(69.5)% to 38.9%
23 March 2006	The Company (632)	Subscription of new Shares	40.0	(67.7)%	(65.9)%

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

Note: Two transactions were announced.

As indicated in the table above, the subscription price of the Market Comparables ranged from (i) a discount of approximately 72.4% to a premium of approximately 19.4% over the respective closing price of the last trading day prior to the date of the respective announcement (“Last Trading Day Range”) with median being discount of approximately 17.7%; and (ii) a discount of approximately 69.5% to a premium of approximately 38.9% over the respective average closing price for the last ten days up to and including the last trading day immediately prior to the date of the respective announcement (“Ten Days Average Range”) with median being discount of approximately 14.3%.

The Issue Price, being a discount of approximately 67.7% to the closing price of HK\$0.0310 per Share as quoted on the Stock Exchange on the Last Trading Day falls within the Last Trading Day Range, and is higher than the median of the Market Comparables in respect to the Last Trading Day Range.

The Issue Price, being a discount of approximately 65.9% to the average closing price of HK\$0.0293 per Share as quoted on the Stock Exchange over the last ten trading days up to the Last Trading Day, falls within the Ten Days Trading Range, and is higher than the median of the Market Comparables in respect to the Ten Days Average Range.

Given the Group’s current dire financial position and the immediate funding needs in particular to settle the Litigation, we consider discount to the recent market prices of the Shares is inevitable in order to attract any investor for a significant amount of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Subscription Shares, Conversion Shares and Option Shares and that the historical price performance of the Shares may not serve a meaningful reference to assess whether the Issue Price is fair and reasonable, particularly after taking into account the low liquidity of the Shares during the Review Period. Moreover, though the discounts of the closing price on the Last Trading Day and the average closing prices on the last ten trading days up to and including the Last Trading Day are higher than the medians of the Last Trading Day Range and the Ten Days Average Range respectively, the Issue Price falls within all of the aforementioned range. In light of the above, we consider that the Issue Price is fair and reasonable so far as the Shareholders are concerned.

### *The Share Subscription and Grant of Option*

Upon Completion, the Subscriber will become the controlling Shareholder. The Share Subscription and Grant of Option are integral parts of the Subscription Agreements, and as aforementioned, we consider that the Transactions, which include the Share Subscription and Grant of Option provide immediate sources of funding to the Group and in particular the Grant of Option is an indication of the Subscriber to provide future financial support to the Group within two years after Completion.

Given the Group's immediate funding needs to settle the Litigation, low liquidity of the Shares during the Review Period, the Issue Price falls within the NAV per Share Range, Last Trading Day Range and Ten Days Average Range as analysed above, in conclusion, based on the foregoing, we are of the view that the terms of the Share Subscription and Grant of Option are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

### *Issue of Convertible Notes*

#### *Comparison with convertible notes/bonds*

To the best of our knowledge and based on the information on the Stock Exchange website, we understand that there is no company listed on the main board of the Stock Exchange that has issued convertible notes or bonds recently and engages in the business identical to the business of the Group. As discussed above, we consider the Issue Price which includes the Conversion Price is fair and reasonable so far as the Company and the Shareholders are concerned. In giving our opinion as to the fairness and reasonableness of the principal terms of the Convertible Notes, to the best of our knowledge, we have reviewed all unlisted convertible notes/bonds with fixed initial conversion price and fixed interest rate and identified nine convertible notes/bonds as announced by companies listed on the main board of the Stock Exchange for the period from 22 December 2005 to 23 March 2006, being the three-month period immediately before the date of the Announcement (the "CN Comparables").

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that the comparison of the conversion price, interest rate and maturity date, which are the major terms of the Convertible Notes, with other unlisted convertible notes/bonds issued by listed companies in Hong Kong is the most appropriate method to analyse the terms of the Convertible Notes because we are of the view that the parties to the issue of convertible notes of this kind would normally determine the major terms e.g. conversion price, interest rate and maturity date with reference to those terms of the convertible notes issued by listed companies in Hong Kong recently. We have not used other methods e.g. Black Scholes Model or Binomial Model to analyse the terms of the Convertible Notes because those models take into account factors, amongst others, including expected volatility and expected dividends of the underlying securities in valuation. In the case of the Company, the trading volume of the Shares, which are the underlying securities of the Convertible Notes, had been very thin for a persistent period (as described under “(ii) Review on trading liquidity of the Shares”) and therefore we are of the view that it does not serve to generate a meaningful expected volatility for calculating the value of the Convertible Notes. Moreover, the Company had not paid any dividend since its financial year end 2002 and therefore it is difficult to assume an expected dividend for the Shares in calculating the value of the Convertible Notes. In addition, the adoption of a three-month period in our analysis is appropriate as it provides an understanding on the principal terms of the recently issued convertible notes/bonds by other listed companies under similar market environment. For reference only, we have conducted a research on the method which market practitioners use regarding independent opinion on “Issue of convertible notes” from 1 January 2005 to the Latest Practicable Date and to the best of our knowledge and based on the Stock Exchange website, we have identified 15 such transactions. Our findings are that all market practitioners used the same method as we use herein.

The following table sets out key terms of the CN Comparables:

Date of announcement	Issuer (stock code)	Principal amount (HK\$' million)	Interest rate per annum	Maturity	Premium/ (discount) of conversion price over/to closing price of the last trading day immediately prior to the date of the respective announcement
30 December 2005	Guo Xin Group Limited (1215)	120.0	5%	4 years	334.8%
6 January 2006	MAE Holdings Limited (851)	44.8	4.5%	3 years	(51.5)%
20 January 2006	Good Fellow Group Limited (910)	210.1	1.5%	4 years	(21.6)%
25 January 2006	China Green (Holdings) Limited (904)	325.0	2.125%	5 years	0.2%



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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Date of announcement	Issuer (stock code)	Principal amount (HK\$' million)	Interest rate per annum	Maturity	Premium/ (discount) of conversion price over/to closing price of the last trading day immediately prior to the date of the respective announcement
8 February 2006	LeRoi Holdings Limited (221) ( <i>Note</i> )	7.0	6.5%	3 years	(42.0)%
16 February 2006	VST Holdings Limited (856)	66.0	Interest free	2 years	16.13%
17 February 2006	Xin Corporation Limited (1141)	37.0	1%	3 years	0.0%
24 February 2006	Shanghai Zendai Property Limited (755)	150.0	4%	3 years	20.0%
17 March 2006	Honesty Treasure International Holdings Limited (600)	93.8	2.5%	5 years	(15.9)%
	<b>Mean</b>		<b>3.0%</b>	<b>3.6 years</b>	<b>26.7%</b>
	<b>Median</b>		<b>2.5%</b>	<b>3 years</b>	<b>0.0%</b>
	<b>Range</b>		<b>Interest free to 6.5%</b>	<b>2 years to 5 years</b>	<b>(51.5)% to 334.8%</b>
23 March 2006	The Company (632)	30.0	4%	2 years	(67.7)%

(a) Interest rate

The interest rates of the CN Comparables range from zero to 6.5% pre annum, with a mean and median of approximately 3.0% and 2.5% per annum respectively. The interest rate carried by the Convertible Notes of 4% per annum is higher than the mean and median of the CN Comparables but represents the higher end of the CN Comparables. As advised by the Directors, the interest rates of the Group's bank loans (including the loan owed to the Plaintiff) ranged from 5.841% to 7.5656%. Based on the prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and the RMB lending rate for loans with repayment period between three to five years quoted by the People's Bank of China as at the date of the Announcement were 7.75% and 5.85% per annum respectively.

Taking into account the interest rate of the Convertible Notes of 4% per annum which (i) falls within the interest rate range of the CN Comparables; (ii) is lower than the borrowing cost of the Group for its existing banking facilities; and (iii) is lower than the prevailing best lending rate (as quoted by The Hongkong and Shanghai Banking Corporation Limited and the People's Bank of China) as at the date of the Announcement, we are of the view that the interest rate of the Convertible Notes is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (b) Conversion Price

The conversion prices of the CN Comparables ranged from a discount of approximately 51.5% to a premium of approximately 334.8% over the respective closing price of the last trading day immediately prior to the date of the respective announcement (“CN Last Trading Day Range”) with mean and median being premium of approximately 26.7% and 0.0% respectively.

The Conversion Price, being a discount of approximately 67.7% to the closing price of HK\$0.0310 per Share as quoted on the Stock Exchange on the Last Trading Day, is out of the CN Last Trading Day Range in terms of median and full range.

The discount of the Conversion Price to the closing price on the Last Trading Day, being out of the CN Last Trading Day Range, seems in its own to be not fair and reasonable as the Independent Shareholders are concerned. However, having taken in account of (i) the Issue of Convertible Notes being an integral part of the Subscription Agreements; (ii) the Conversion Price is within the Last Trading Day Range as analysed in the above paragraph headed “(iii) Comparison with other subscription of new shares”; (iv) the immediate need of funds to settle the Litigation; (v) the possible financial difficulties to the Group which may be prompted from the Litigation; and (vi) the Transactions, for the time being, is the only feasible proposal for the Company, we are of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

### (c) Maturity date

The maturity date of the Convertible Notes will be the date falling two years after the date of the issue of the Convertible Notes. By comparison, we note that the terms to maturity of the CN Comparables range from two years to five years and that the average term to maturity of the CN Comparables is approximately 3.6 years. The term to maturity of the Convertible Notes falls within the range of the term of maturity of the CN Comparables. Furthermore, as the Convertible Notes have two years to maturity, we consider the Group would be relieved of any imminent cashflow pressure to redeem and repay the principal amount of HK\$30 million, which we consider is in the interests of the Company and the Independent Shareholders as a whole. However, should the Group require to repay the principal amount of HK\$30 million in 2 years, the Group might need to re-finance the same if the Group cannot generate sufficient cash from their internal resources then.

In conclusion, based on the foregoing, we are of the view that the terms of the Convertible Notes are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 3. Dilution effect on the shareholding interests of the Independent Shareholders

The following table illustrates the Company's shareholding changes as a result of the Transactions after the issuance of the Subscription Shares, Convertible Shares and Option Shares to the Subscriber:

	As at the Latest Practicable Date		After issue of the Subscription Shares		After issue of the Subscription Shares and exercise in full of the Convertible Notes		After issue of the Subscription Shares and exercise in full of the Convertible Notes and the Option	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Farsight Holdings Limited (Note 1)	63,854,189	1.17	63,854,189	0.68	63,854,189	0.51	63,854,189	0.48
Warrantor (Note 1)	982,368,894	18.07	982,368,894	10.41	982,368,894	7.90	982,368,894	7.31
Chen Gang, Gordon (Note 2)	63,160,000	1.16	63,160,000	0.67	63,160,000	0.51	63,160,000	0.47
Subtotal	1,109,383,083	20.40	1,109,383,083	11.76	1,109,383,083	8.92	1,109,383,083	8.26
Smooth Develop (Note 3)	1,100,000,000	20.23	1,100,000,000	11.65	1,100,000,000	8.84	1,100,000,000	8.18
Sunny State (Note 4)	333,330,000	6.13	333,330,000	3.53	333,330,000	2.68	333,330,000	2.48
Other Directors	133,909,967	2.46	133,909,967	1.42	133,909,967	1.08	133,909,967	1.00
The Subscriber	–	–	4,000,000,000	42.38	7,000,000,000	56.28	8,000,000,000	59.53
Other public Shareholders	2,761,474,950	50.78	2,761,474,950	29.26	2,761,474,950	22.20	2,761,474,950	20.55
<b>Total</b>	<b>5,438,098,000</b>	<b>100.00</b>	<b>9,438,098,000</b>	<b>100.00</b>	<b>12,438,098,000</b>	<b>100.00</b>	<b>13,483,098,000</b>	<b>100.00</b>

*Notes:*

- The shareholders of the Warrantor include Farsight Holdings Limited, Dr. Fan Di, Mr. Chen Gang, Gordon and other minority shareholders. Therefore, Farsight Holdings is deemed to be interested in the Shares held by the Warrantor.
- Mr. Chen Gang, Gordon is alternate to Dr. Fan Di and therefore Mr. Chen Gang, Gordon is deemed to be party acting in concert with the Warrantor.
- Smooth Develop is an independent third party not connected to the substantial shareholders, chief executive and/or directors of the Company and of its subsidiaries and their respective associates, the Subscriber and its beneficial owner. As Smooth Develop's shareholding interest in the Company exceeds 10% of the issued share capital of the Company as at the Latest Practicable Date and is expected to exceed 10% of the issued share capital of the Company upon issue of the Subscription Shares, Smooth Develop is not considered as a public Shareholder under these two situations. However, under the two scenarios whereby following the issue of the Subscription Shares and exercise of the Convertible Notes and Option in full, Smooth Develop's shareholding interests in the Company is expected to be below 10%, Smooth Develop will be considered to be an investing public.
- Sunny State is an independent third party not connected to the substantial shareholders, chief executive and/or directors of the Company and of its subsidiaries and their respective associates, the Subscriber and its beneficial owner.
- The above table is for illustrative purpose only. The shareholding percentages may change as a result of any adjustment in the Conversion Price and Exercise Price of the Convertible Notes and Option respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the above table, the interest of the public Shareholders will be diluted from approximately 56.91% to approximately 32.79% upon completion of the Share Subscription and Issue of Convertible Notes. Upon completion of the Share Subscription and full conversion of the Convertible Notes, the Public Shareholders' interest will be diluted to approximately 33.72%. Furthermore, upon completion of the Share Subscription and exercise in full of the Convertible Notes and the Option, the interest of the Public Shareholders will be diluted to approximately 31.21%.

We consider the level of dilution to the existing other public Shareholders to be significant. However, taking into account that the Group is in such dire financial position and is in urgent need to relieve its tight liquidity position in particular to settle the Litigation, we consider the possible dilution effect on the other public Shareholders to be justifiable, and that the Transactions are fair and reasonable to the Independent Shareholders and is in the interests of the Company and the Shareholders as a whole.

Although after completion of the Share Subscription and exercise in full of the Convertible Notes and/or the Option, the public float of the Company will be within the minimum requirement of the Listing Rules of 25%, the Subscriber has given an undertaking not to exercise its Conversion Rights in respect to the Convertible Notes and subscription rights attaching to the Option if the exercise of such rights shall bring the public float of the Company below 25%.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 4. Financial effects of the Transactions on the Group

The following analysis is for illustration purpose only.

(i) *Effect on NTAV*

Set out below illustrates the effect on the unaudited consolidated NTAV of the Group as at 30 September 2005 as adjusted for the effect of the Transactions on the Group and assuming the Share Consolidation has become effective as at 30 September 2005:

	Estimated proceeds and amount of the Convertible Notes (Unaudited) <i>HK\$'000</i>	Consolidated NTAV (Unaudited) <i>HK\$'000</i>	Consolidated NTAV per Share (Unaudited) <i>HK\$</i>	Percentage change of consolidated NTAV compared between as at 30 September 2005 and pro forma (Unaudited) %	Percentage change of consolidated NTAV per Share compared between as at 30 September 2005 and pro forma (Unaudited) %
As at 30 September 2005		132,870	1.2217 <i>(Note 1)</i>		
Estimated net proceeds from the Share Subscription and Issue of Convertible Notes	69,600				
Principal amount of the Convertible Notes	(30,000)				
Pro forma after Share Subscription and Issue of Convertible Notes		172,470	0.9137 <i>(Note 2)</i>	29.8	(25.2)
Gross proceeds from exercise in full of the Convertible Notes	30,000				
Pro forma after Share Subscription and exercise in full of the Convertible Notes		202,470	0.8139 <i>(Note 3)</i>	52.4	(33.4)
Gross proceeds from exercise in full of the Option	10,000				
Pro forma after Share Subscription and exercise in full of the Convertible Notes and the Option		212,470	0.7906 <i>(Note 4)</i>	59.9	(35.3)

*Notes:*

1. Based on 108,461,960 Consolidated Shares (adjusted for the effect of the Share Consolidation)
2. Based on 188,761,960 Consolidated Shares (calculated as 108,461,960 Consolidated Shares plus 80,000,000 Consolidated Subscription Shares)
3. Based on 248,761,960 Consolidated Shares (calculated as 108,461,960 Consolidated Shares plus 80,000,000 Consolidated Subscription Shares and 60,000,000 Consolidated Conversion Shares)
4. Based on 268,761,960 Consolidated Shares (calculated as 108,461,960 Consolidated Shares plus 80,000,000 Consolidated Subscription Shares, 60,000,000 Consolidated Conversion Shares and 20,000,000 Consolidated Option Shares)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In light of the enhanced pro forma consolidated NTAV of the Group as a result of the Transactions, we are of the opinion that the Transactions are in the interests of the Company and the Shareholders as a whole. The decrease in the pro forma consolidated NTAV per Consolidated Share is an inevitable consequence of the Issue Price set at a heavy discount. We consider the improvement in the pro forma net tangible assets of the Group represents a significant benefit to the Company and the Shareholders as a whole.

*(ii) Effect on gearing ratio*

As aforementioned above, the Group's gearing ratio (being total borrowings divided by NTAV) was approximately 64.9% as at 30 September 2005. The table set out below illustrates the estimated gearing ratio of the Group after taking into account part of the proceeds raised from the Share Subscription and Issue of Convertible Notes used to repay the loan owed to the Plaintiff:

	<b>As at 30 September 2005 (Unaudited)</b>	<b>After Share Subscription and Issue of Convertible Notes (Unaudited)</b>	<b>After Share Subscription and exercise in full of the Convertible Notes (Unaudited)</b>	<b>After Share Subscription and exercise in full of the Convertible Notes and the Option (Unaudited)</b>
NTAV ( <i>HK\$' million</i> )	132.9	172.5	202.5	212.5
Total borrowings (including the Convertible Notes) ( <i>HK\$' million</i> )	86.3	86.3	56.3	56.3
Gearing	64.9%	50.0%	27.8%	26.5%

As illustrated above, the gearing ratio of the Group would improve significantly upon completion of the Transactions. We consider the reduced gearing ratio in above scenarios provides the Group with more financial flexibility and is crucial in restoring the Group to a healthier financial position and hence is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *(iii) Effect on liquidity*

According to the Interim Report, the unaudited total cash and bank balances of the Group was approximately HK\$0.7 million as at 30 September 2005. We consider the Share Subscription and Issue of Convertible Notes would strengthen the Group's liquidity position by generating net proceeds of approximately HK\$69.6 million which would be used to settle the outstanding loan owed to the Plaintiff and general working capital. Furthermore, the exercise of the Option will also generate additional gross proceeds of approximately HK\$10.0 million to the Group. In conclusion, the Group therefore would have a significant improvement on the cash position upon completion of the Transactions and is therefore in the interests of the Company and the Shareholders as a whole.

### **5. The Whitewash Waiver**

Immediately following the completion of the Share Subscription, the Subscriber will be interested in approximately 42.38% of the enlarged issued share capital of the Company and the Subscriber's shareholding in the Company will further increase to approximately 59.53% upon full exercise of the Convertible Notes and the Option. Accordingly, the Subscriber will be obliged to make an unconditional mandatory general offer under Rule 26.1 of the Takeovers Code for all issued Shares (other than those Shares already owned or agreed to be acquired by the Subscriber and parties acting in concert with it). In this regard, the Subscriber has made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code subject to the approval of the Independent Shareholders on a vote taken by way of a poll at the SGM.

The Transactions are conditional upon, amongst others, the granting of the Whitewash Waiver by the Executive to the Subscriber and the passing of the relevant resolution by the Independent Shareholders by way of poll at the SGM. The approval of the Whitewash Waiver by the Independent Shareholders is therefore one of the pre-requisites for the Transactions to proceed. In the event the Transactions cannot proceed, in view of the Group's tight cash position, the Group is highly unlikely to settle the Litigation, which involve an amount of approximately HK\$28.8 million, and also other bank borrowings from the Creditor of approximately HK\$57.7 million with repayment due date in October 2006.

Given the expected improvement in the Group's financial position resulting from the Transactions as discussed above, we are of the opinion that the approval of the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Transactions as an immediate relief to the Group's tight cash position and possible financial difficulties which may be provoked by the Litigation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Shareholders should note that upon completion of the Share Subscription and exercise in full of the Convertible Notes and the Option, the Subscriber and parties acting with it will hold more than 50% of the enlarged issued share capital of the Company. In the event that the Subscriber and its concert parties' shareholding interests in the Company exceeds 50% upon completion of the Share Subscription and exercise in full of the Convertible Notes and the Option, and the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Subscriber and parties acting in concert with it may increase their shareholdings in the Company without incurring any further obligations under Rule 26 to make a general offer.

### RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Subscription Agreements is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committees to advise the Independent Shareholders, to vote in favour of the relevant resolutions at the SGM to approve the Subscription Agreements. We also recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the Subscription Agreements at the SGM.

Taking into consideration the reasons for the Transactions and that the Transactions are conditional upon the grant of the Whitewash Waiver, we therefore advise the IBC (Takeovers Code) to advise the Independent Shareholders to vote in favour of the relevant resolutions in relation to the Whitewash Waiver at the SGM. We also recommend the Independent Shareholders to vote in favour of the relevant resolutions to approve the Whitewash Waiver at the SGM.

Yours faithfully,  
For and on behalf of  
**Kingston Corporate Finance Limited**  
**Graham Lam**  
*Executive Director*



## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last three financial years, as extracted from the audited financial statements, is set out below.

**Results**

	Year ended 31 March		
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	34,145	27,769	36,337
Cost of sales	(21,695)	(18,867)	(35,364)
Gross profit	12,450	8,902	973
Other operating income	6,713	6,107	38,236
Selling expenses	(2,723)	(1,082)	(2,368)
Administrative expenses	(25,076)	(26,346)	(30,024)
Compensation to a former director of a subsidiary of the Group	(4,000)	–	–
Gain on disposal of investments in securities	–	16,208	–
Unrealized holding gain on investments in securities	538	7,027	359
Reversal (allowance) of allowance for amount due from an investee	–	6,671	(75)
(Allowance) reversal of allowances for doubtful debts	(174)	(4,077)	3,081
(Loss) profit from operations	(12,272)	13,410	10,182
Finance costs	(5,486)	(6,287)	(4,157)
(Loss) gain on disposal of subsidiaries/ associate/jointly controlled entity/ discontinued operation	(2,071)	(1,780)	8,877
Share of results of an associate/jointly controlled entity	1,826	6,115	(2,509)
(Loss) profit before taxation	(18,003)	11,458	12,393
Taxation	(435)	326	–
(Loss) profit before minority interests	(18,438)	11,784	12,393
Minority interests	17	2,478	1,060
Net (loss) profit for the year	<u>(18,421)</u>	<u>14,262</u>	<u>13,453</u>
(Loss) earnings per Share			
– Basic	(0.36) cents	0.31 cents	0.39 cents
– Diluted	N/A	0.27 cents	0.34 cents
Dividend per Share	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>

**Assets and liabilities**

	<b>As at 31 March</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	243,009	243,235	212,711
Total liabilities	<u>117,823</u>	<u>124,046</u>	<u>99,665</u>
Net assets	<u><u>125,186</u></u>	<u><u>119,189</u></u>	<u><u>113,046</u></u>

*Notes:*

1. No dividends were declared for the three years ended 31 March 2005.
2. There were no extraordinary items or exceptional items.

## 2. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements of the Group as extracted from pages 23 to 69 of the annual report of the Company for the year ended 31 March 2005. References to page number in this appendix are to the page numbers of such annual report of the Company.

**Consolidated Income Statement**

*For the year ended 31 March 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Turnover	4	34,145	27,769
Cost of sales		<u>(21,695)</u>	<u>(18,867)</u>
Gross profit		12,450	8,902
Other operating income		6,713	6,107
Selling expenses		(2,723)	(1,082)
Administrative expenses		(25,076)	(26,346)
Compensation to a former director of a subsidiary of the Group	6	(4,000)	–
Gain on disposal of investments in securities		–	16,208
Unrealised holding gain on investments in securities		538	7,027
Reversal of allowance for amount due from an investee		–	6,671
Allowance for doubtful debts		<u>(174)</u>	<u>(4,077)</u>
(Loss) profit from operations	7	(12,272)	13,410
Interests on bank borrowings wholly repayable within five years		(5,473)	(6,274)
Finance lease charges		(13)	(13)
Gain on disposal of subsidiaries		431	816
Loss on disposal of discontinued operation	8	(156)	(4,629)
Loss on disposal of an associate		(2,346)	–
Gain on disposal of a jointly controlled entity		–	2,033
Share of results of an associate		1,826	(326)
Share of results of a jointly controlled entity		<u>–</u>	<u>6,441</u>
(Loss) profit before taxation		(18,003)	11,458
Taxation	10	<u>(435)</u>	<u>326</u>
(Loss) profit before minority interests		(18,438)	11,784
Minority interests		<u>17</u>	<u>2,478</u>
Net (loss) profit for the year		<u>(18,421)</u>	<u>14,262</u>
(Loss) earnings per share	11		
Basic		<u>(0.36) cents</u>	<u>0.31 cents</u>
Diluted		<u>N/A</u>	<u>0.27 cents</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP****Consolidated Balance Sheet***At 31 March 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Investment properties	<i>12</i>	–	700
Property, plant and equipment	<i>13</i>	121,376	124,703
Interest in an associate	<i>15</i>	–	26,388
Deposit paid for acquisition of additional interest in an associate	<i>16</i>	–	12,613
Goodwill	<i>17</i>	1,884	–
		<u>123,260</u>	<u>164,404</u>
<b>Current assets</b>			
Inventories	<i>18</i>	–	168
Trade and other receivables	<i>19</i>	24,728	6,408
Loans receivable	<i>20</i>	71,568	34,057
Investments in securities	<i>21</i>	19,241	8,929
Amount due from an investee	<i>22</i>	–	3,881
Amount due from ultimate holding company	<i>23</i>	29	23
Bank balances and cash		4,183	25,365
		<u>119,749</u>	<u>78,831</u>
<b>Current liabilities</b>			
Trade and other payables	<i>24</i>	24,831	16,028
Amounts due to related companies	<i>23</i>	2,426	2,426
Amounts due to minority shareholders of subsidiaries	<i>23</i>	1,674	1,813
Tax payable		245	205
Obligations under a finance lease – due within one year	<i>25</i>	78	78
Bank borrowings – due within one year	<i>26</i>	88,523	78,037
		<u>117,777</u>	<u>98,587</u>
Net current assets (liabilities)		<u>1,972</u>	<u>(19,756)</u>
Total assets less current liabilities		<u>125,232</u>	<u>144,648</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP**

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Non-current liabilities			
Obligations under a finance lease			
– due after one year	25	46	125
Bank borrowings – due after one year	26	<u>–</u>	<u>25,334</u>
		<u>46</u>	<u>25,459</u>
		<u>125,186</u>	<u>119,189</u>
Capital and reserves			
Share capital	27	54,381	45,365
Reserves		<u>67,488</u>	<u>73,824</u>
		121,869	119,189
Minority interests		<u>3,317</u>	<u>–</u>
		<u>125,186</u>	<u>119,189</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP****Balance Sheet***At 31 March 2005*

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	<i>14</i>	<u>94,236</u>	<u>81,517</u>
Current assets			
Other receivables		471	471
Investments in securities	<i>21</i>	17,674	–
Bank balances and cash		<u>49</u>	<u>200</u>
		<u>18,194</u>	<u>671</u>
Current liabilities			
Other payables		33	33
Amount due to a related company	<i>23</i>	<u>100</u>	<u>100</u>
		<u>133</u>	<u>133</u>
Net current assets		<u>18,061</u>	<u>538</u>
Total assets less current liabilities		112,297	82,055
Non-current liabilities			
Amounts due to subsidiaries	<i>14</i>	<u>30,203</u>	<u>24,468</u>
		<u>82,094</u>	<u>57,587</u>
Capital and reserves			
Share capital	<i>27</i>	54,381	45,365
Reserves	<i>29</i>	<u>27,713</u>	<u>12,222</u>
		<u>82,094</u>	<u>57,587</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP****Consolidated Statement of Changes in Equity***For the year ended 31 March 2005*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(note 29)</i>	Goodwill reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	45,365	26,725	402,101	721	5,498	(374,075)	106,335
Exchange differences arising on the translation of financial statements of overseas operations not recognised in the consolidated income statement	-	-	-	-	(905)	-	(905)
Release upon disposal of subsidiaries	-	-	1,450	(721)	(1,232)	-	(503)
Net profit for the year	-	-	-	-	-	14,262	14,262
At 31 March 2004	45,365	26,725	403,551	-	3,361	(359,813)	119,189
Exchange differences arising on the translation of financial statements of overseas operations not recognised in the consolidated income statement	-	-	-	-	65	-	65
Issue of shares pursuant to exercise of warrants	9,016	11,720	-	-	-	-	20,736
Release upon disposal of subsidiaries	-	-	300	-	-	-	300
Net loss for the year	-	-	-	-	-	(18,421)	(18,421)
At 31 March 2005	<u>54,381</u>	<u>38,445</u>	<u>403,851</u>	<u>-</u>	<u>3,426</u>	<u>(378,234)</u>	<u>121,869</u>

**Consolidated Cash Flow Statement***For the year ended 31 March 2005*

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
(Loss) profit from operations	(12,272)	13,410
Adjustments for:		
Bank interest income	(85)	(227)
Interest from loans receivable	(3,550)	(1,701)
Amortisation of goodwill	209	–
Depreciation and amortisation of property, plant and equipment	4,752	5,588
Waiver of other payables	–	(684)
Allowance for doubtful debts	174	4,077
Reversal of allowance for amount due from an investee	–	(6,671)
Unrealised holding gain on investments in securities	(538)	(7,027)
Gain on disposal/write off of investments in securities	–	(16,208)
Loss on disposal of property, plant and equipment	75	7
Loss on disposal of investment properties	–	416
	<hr/>	<hr/>
Operating cash outflows before movements in working capital	(11,235)	(9,020)
Decrease in inventories	12	920
Increase in trade and other receivables	(6,567)	(5,879)
Increase in amount due from an investee	(5,476)	(2,955)
Increase in trade and other payables	4,962	4,563
	<hr/>	<hr/>
Net cash used in operations	(18,304)	(12,371)
Tax paid	(314)	(988)
Tax refunded	–	531
	<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(18,618)</b>	<b>(12,828)</b>



**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP**

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
<b>INVESTING ACTIVITIES</b>			
Purchases of investments in securities		(417)	(25,948)
New loans receivable		(71,569)	(10,500)
Purchases of property, plant and equipment		(299)	(2,810)
Proceeds from disposal of an associate		25,787	–
Proceeds from disposal of deposit paid on acquisition of additional interest in an associate		12,613	–
Repayment of loans receivable		34,058	–
Interest received from loans receivable		647	1,701
Interest received from bank		85	227
Net cash inflow on acquisition of subsidiaries	31	642	–
Acquisition of an associate		–	(26,714)
Deposit paid on acquisition of additional interest in an associate		–	(12,613)
Advance to minority shareholders of subsidiaries		–	(55)
Proceeds on disposal of investments in securities		–	29,195
Proceeds from disposal of a jointly controlled entity		–	9,609
Proceeds from disposal of investment properties		–	2,211
Net cash inflow on discontinued operations/ disposal of subsidiaries	32	–	736
		<hr/>	<hr/>
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>1,547</b>	<b>(34,961)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of bank loans		(116,004)	(46,634)
Interest and finance lease charges paid		(5,486)	(6,287)
Repayment to minority shareholders		(139)	–
Repayment of obligations under a finance lease		(79)	(78)
Repayment to ultimate holding company		(6)	(94)
New bank loans raised		96,862	89,601
Net proceeds from issue of shares		20,736	–
Advance from related companies		–	111
		<hr/>	<hr/>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		<b>(4,116)</b>	<b>36,619</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(21,187)</b>	<b>(11,170)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>25,365</b>	<b>36,439</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>5</b>	<b>96</b>
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash</b>		<b>4,183</b>	<b>25,365</b>
		<hr/> <hr/>	<hr/> <hr/>

**Notes to the Financial Statements***For the year ended 31 March 2005***1. GENERAL**

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is DiChain Holdings Limited (“DiChain Holdings”), a limited company incorporated in Hong Kong.

The Company is an investment holding company and the principal activities of its principal subsidiaries are set out in note 42.

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 Business Combinations. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has commenced considering the potential impact of other new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities and investment properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

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

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

**Goodwill**

Goodwill arising on acquisitions with agreement date before 1 January 2005 represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 but with agreement date before 1 January 2005 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill and goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions with agreement date on or after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period.

**Investments in subsidiaries**

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

**Interest in an associate**

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, the interest in associate is stated at the Group's share of the net assets of the associate plus the goodwill in so far as it has not already been amortised, less any identified impairment losses.

**Revenue recognition**

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

Service income is recognised when services are rendered.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the terms of the relevant lease.

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

Revenue from the disposal of investments are recognised on the trade-date when a sale and purchase contract is entered into.

**Investment properties**

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

Investment properties are stated at their open market value. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is twenty years or less.

**Property, plant and equipment**

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

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

Land and buildings held in the People's Republic of China ("PRC")	Over the terms of the land use rights
Leasehold improvements	Over the shorter of the terms of the lease, land use rights or 5 years
Equipment	15 – 20%
Furniture, fixtures and office equipment	20 – 25%
Motor vehicles	15 – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the terms of the respective leases.

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

### Impairment

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

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

### Investments in securities

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

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

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

Other investments are measured at fair value, with unrealised gains and losses included in the income statement for the year.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### Foreign currencies

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

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

**Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

**Leases**

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

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

**Retirement benefit schemes**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

**4. TURNOVER**

Turnover represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers, less returns and allowances, and rental income for the year, and is analysed as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Continuing operations		
Logistics and other services	32,874	13,713
Discontinued operations		
Sales of electronic household appliances	1,271	2,991
Sales of edible oil	–	10,660
Sales of food and beverage	–	405
	1,271	14,056
	34,145	27,769

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS****Business segments**

The Group currently only operates a single business which is the provision of logistics and related services. It is on this basis that the Group reports its primary segment information.

In the prior year, the Group was also involved in the distribution of electronic household appliances. This operation was discontinued during the year; details are set out in note 8.

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP**

Segment information about these businesses is presented below:

*For the year ended 31 March 2005*

	<b>Continuing operations</b>	<b>Discontinued operation</b>		
	<b>Logistics</b>	<b>Electronic household appliances</b>	<b>Elimination</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TURNOVER</b>				
External sales	32,874	1,271	–	34,145
Inter-segment sales	305	–	(305)	–
	<u>33,179</u>	<u>1,271</u>	<u>(305)</u>	<u>34,145</u>
	<u>33,179</u>	<u>1,271</u>	<u>(305)</u>	<u>34,145</u>
<b>RESULTS</b>				
Segment results	(830)	(420)	–	(1,250)
	<u>(830)</u>	<u>(420)</u>	<u>–</u>	<u>(1,250)</u>
Interest income from loans receivable				3,550
Unallocated corporate income				3,441
Unallocated corporate expenses				<u>(18,013)</u>
Loss from operations				(12,272)
Finance costs				(5,486)
Gain on disposal of subsidiaries				431
Loss on disposal of discontinued operation	–	(156)	–	(156)
Loss on disposal of an associate	(2,346)	–	–	(2,346)
Share of results of an associate	1,826	–	–	<u>1,826</u>
Loss before taxation				(18,003)
Taxation				<u>(435)</u>
Loss before minority interests				(18,438)
Minority interests				<u>17</u>
Net loss for the year				<u>(18,421)</u>

Inter-segment sales are charged at prevailing market rates.

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

*As at 31 March 2005*

	<u>Continuing operations</u>	<u>Discontinued operation</u>	
	<b>Logistics</b> <i>HK\$'000</i>	<b>Electronic household appliances</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	146,286	–	146,286
Goodwill	1,884	–	1,884
Investments in securities			19,241
Loans receivable			71,568
Other unallocated corporate assets			4,030
Consolidated total assets			<u>243,009</u>
<b>LIABILITIES</b>			
Segment liabilities	8,730	–	8,730
Tax payable			245
Obligations under a finance lease			124
Bank borrowings			88,523
Other unallocated corporate liabilities			20,201
Consolidated total liabilities			<u>117,823</u>

	<u>Continuing operations</u>	<u>Discontinued operation Electronic household</u>		
	<b>Logistics</b> <i>HK\$'000</i>	<b>appliances</b> <i>HK\$'000</i>	<b>Unallocated</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
Other information:				
Allowance for doubtful debts	–	174	–	174
Capital additions	1,350	40	45	1,435
Depreciation and amortisation	4,209	68	475	4,752
Loss on disposal of property, plant and equipment	–	75	–	75
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**

For the year ended 31 March 2004

	Continuing operations	Discontinued operations			Elimination	Consolidated
		Logistics	Electronic household appliances	Edible oil		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>						
External sales	13,713	2,991	10,660	405	–	27,769
Inter-segment sales	234	–	–	–	(234)	–
<b>Total</b>	<b>13,947</b>	<b>2,991</b>	<b>10,660</b>	<b>405</b>	<b>(234)</b>	<b>27,769</b>
<b>RESULTS</b>						
Segment results	615	(315)	(4,698)	(622)	–	(5,020)
Gain on disposal of investments in securities						16,208
Unrealised holding gain on investments in securities						7,027
Unallocated corporate income						9,445
Unallocated corporate expenses						(14,250)
Profit from operations						13,410
Finance costs						(6,287)
Net loss on disposal of subsidiaries	–	(315)	–	–	–	(315)
Net gain on disposal of subsidiaries						1,131
(Loss) gain on disposal of discontinued operations	–	–	(4,776)	147	–	(4,629)
Gain on disposal of a jointly controlled entity	–	–	–	2,033	–	2,033
Share of results of an associate						(326)
Share of results of a jointly controlled entity	–	–	–	6,441	–	6,441
Profit before taxation						11,458
Taxation						326
Profit before minority interests						11,784
Minority interests						2,478
Net profit for the year						14,262

Inter-segment sales are charged at prevailing market rates.

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP***As at 31 March 2004*

	<b>Discontinued operations</b>				<b>Consolidated</b> <i>HK\$'000</i>
	<b>Continuing operations</b>	<b>Electronic household appliances</b>	<b>Edible oil</b>	<b>Food and beverage</b>	
	<b>Logistics</b> <i>HK\$'000</i>	<b>appliances</b> <i>HK\$'000</i>	<b>Edible oil</b> <i>HK\$'000</i>	<b>Food and beverage</b> <i>HK\$'000</i>	
<b>ASSETS</b>					
Segment assets	140,917	1,189	–	–	142,106
Investments in securities					8,929
Interest in an associate					26,388
Loans receivable					34,057
Deposit paid for acquisition of additional interest in an associate					12,613
Other unallocated corporate assets					19,142
Consolidated total assets					<u>243,235</u>
<b>LIABILITIES</b>					
Segment liabilities	3,920	56	–	–	3,976
Tax payable					205
Obligations under a finance lease					203
Bank borrowings					103,371
Other unallocated corporate liabilities					16,291
Consolidated total liabilities					<u>124,046</u>

	<u>Discontinued operations</u>					Consolidated HK\$'000
	<u>Continuing operations</u>	Electronic household appliances	Edible oil	Food and beverage	Unallocated	
	Logistics HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Other information:						
Allowances for doubtful debts	–	–	4,077	–	–	4,077
Capital additions	2,032	23	–	–	755	2,810
Depreciation and amortisation	4,110	26	–	–	1,452	5,588
Loss on disposal of investment properties	–	–	–	–	416	416
Loss on write off of property, plant and equipment	–	–	–	–	7	7
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7</u>	<u>7</u>

### Geographical segments

The Group's operations are principally located in Hong Kong and the PRC. The Group's administrative function is carried out in Hong Kong and the PRC and the operating activities are carried out in the PRC.

Over 90% of the Group's sales were made to customers in the PRC. Accordingly, no geographical analysis of sales is presented.

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

	<u>Carrying amount of segment assets</u>		<u>Additions to property, plant and equipment</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	228	39,736	40	730
PRC	242,781	203,499	1,395	2,080
	<u>243,009</u>	<u>243,235</u>	<u>1,435</u>	<u>2,810</u>

### 6. COMPENSATION TO A FORMER DIRECTOR OF A SUBSIDIARY OF THE GROUP

In 2002, Dransfield Holdings Limited ("DHL") was named as a defendant in a legal action regarding a denial of a former director's request to exercise certain share options granted to her. DHL contested the claim. However, DHL lost the case after the legal proceedings were concluded subsequent to the year end and compensation, together with interest accrued, of HK\$4,000,000 was provided in the financial statements for the year.

## 7. (LOSS) PROFIT FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
(Loss) profit from operations has been arrived at after charging:		
Staff costs	8,795	9,101
Retirement benefit schemes contributions	207	382
	<u>9,002</u>	<u>9,483</u>
Total staff costs, including directors' emoluments		
Auditors' remuneration:		
Current year	799	776
Underprovision in previous year	–	584
Amortisation of goodwill included in administration expenses	209	–
Cost of inventories recognised as an expense	168	12,042
Depreciation and amortisation	4,752	5,588
Loss on disposal/write off of:		
Investment properties	–	416
Property, plant and equipment	75	7
and after crediting:		
Interest income from:		
Bank	85	227
Loans receivable	3,550	1,701
Waiver of other payables	–	684
	<u>–</u>	<u>684</u>

## 8. DISCONTINUED OPERATIONS

During the year, the Group disposed of its entire interests in a subsidiary, Dransfield Electrical Appliances Limited (“DEA”) for a cash consideration of HK\$100 (the “DEA Disposal”). The DEA Disposal was effected in order for the Group to focus on its logistics operations.

DEA was principally engaged in the trading of electronic household appliances in Hong Kong. The DEA Disposal was completed on 31 March 2005, when control of DEA was passed to the acquirer.

The carrying amounts of the assets and liabilities of the electronic household appliances trading business on the date of disposal and at 31 March 2004 and the loss arising from the disposal are as follows:

	<b>Electronic household appliances</b>	
	<b>On date of disposal</b>	<b>At 31 March 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	–	104
Inventories	156	168
Trade and other receivables	–	769
Bank balances and cash	–	191
Trade and other payables	–	(21,614)
	<hr/>	<hr/>
Loss on disposal	156 (156)	(20,382) N/A
	<hr/>	<hr/>
Consideration received	–	N/A
	<hr/> <hr/>	<hr/> <hr/>

The operating results of the electronic household appliances trading business, which are disclosed in note 5, did not have a material contribution to the net cash flows of the Group for the year ended 31 March 2005.

## 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	200	130
	<hr/>	<hr/>
	200	130
	<hr/>	<hr/>
Other emoluments:		
Executive directors		
– Salaries and other benefits	1,597	1,752
– Bonus	316	243
– Retirement benefit schemes contributions	8	12
	<hr/>	<hr/>
	1,921	2,007
	<hr/>	<hr/>
Non-executive directors		
– Salaries and other benefits	–	–
	<hr/>	<hr/>
	2,121	2,137
	<hr/> <hr/>	<hr/> <hr/>

The aggregate emoluments of each individual director during both years were below HK\$1,000,000.

**Employees' emoluments**

During the year, the five highest paid individuals in the Group included four directors (2004: three directors) of the Company, details of whose emoluments are set out above. The emoluments of the remaining (2004: two) individual were as follows:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Salaries and other benefits	539	917
Bonus	–	76
Retirement benefit schemes contributions	11	24
	<u>550</u>	<u>1,017</u>

The aggregate emoluments of each of the highest paid individuals during the year ended 31 March 2004 were below HK\$1,000,000.

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no director waived any emoluments in both years.

**10. TAXATION**

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Hong Kong Profits Tax		
– under (over) provision in previous years	119	(326)
PRC enterprise income tax	235	–
	<u>354</u>	<u>(326)</u>
Share of taxation attributable to an associate	81	–
	<u>435</u>	<u>(326)</u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

PRC enterprise income tax is calculated at the PRC income tax rate at relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for both years.

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP**

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

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
(Loss) profit before taxation	(18,003)	11,458
Tax at domestic tax rate of 15% (2004: 15%)	(2,700)	1,719
Tax effect of share of results of an associate and a jointly controlled entity	193	(917)
Tax effect of income not taxable for tax purpose	(1,889)	(17,177)
Tax effect of expenses not deductible for tax purpose	2,492	12,753
Tax effect of tax loss not recognised	2,092	3,622
Underprovision (overprovision) of taxation in prior years	119	(326)
Tax effect of different tax rate in subsidiaries	128	–
Tax charge (credit) for the year	435	(326)

Details of deferred tax are set out in note 30.

*Note:* The domestic income tax rate is the rate for special regions in the PRC in which the Group's operations are substantially based, where a preferential tax rate of 15% is used.

**11. (LOSS) EARNINGS PER SHARE**

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
(Loss) earnings for the purpose of calculating basic and diluted (loss) earnings per share:		
Net (loss) profit for the year	(18,421)	14,262
Weighted average number of shares for the purpose of calculating basic (loss) earnings per share (in thousands)	5,104,718	4,536,565
Effect of dilutive potential shares (in thousands):		
Warrants	N/A	764,459
Share options	N/A	25,897
Weighted average number of shares for the purpose of calculating diluted (loss) earnings per share (in thousands)	5,104,718	5,326,921

No diluted loss per share is presented as the exercise of the Company's outstanding share options for the year ended 31 March 2005 would result in a decrease in loss per share.

**APPENDIX I**
**FINANCIAL INFORMATION ON THE GROUP**
**12. INVESTMENT PROPERTIES**

	<b>THE GROUP</b> <i>HK\$'000</i>
VALUATION	
At 1 April 2004	700
Disposals	(700)
	<hr/>
At 31 March 2005	<hr/> <hr/>

**13. PROPERTY, PLANT AND EQUIPMENT**

	<b>Leasehold land and buildings in the PRC HK\$'000</b>	<b>Leasehold improve- ments HK\$'000</b>	<b>Equipment HK\$'000</b>	<b>Furniture, fixtures and office equipment HK\$'000</b>	<b>Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>
<b>THE GROUP</b>						
<b>COST</b>						
At 1 April 2004	136,119	4,972	7,152	30,542	3,079	181,864
Exchange realignment	72	–	–	10	–	82
Additions	–	40	–	259	–	299
Acquisition of subsidiaries	–	–	–	1,136	–	1,136
Disposal of subsidiaries	–	–	–	(25)	–	(25)
Disposals	–	(539)	–	(711)	–	(1,250)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	136,191	4,473	7,152	31,211	3,079	182,106
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION AND AMORTISATION AND IMPAIRMENT</b>						
At 1 April 2004	26,256	4,549	7,152	17,169	2,035	57,161
Exchange realignment	14	–	–	3	–	17
Provided for the year	2,857	206	–	1,329	360	4,752
Eliminated on disposal of subsidiaries	–	–	–	(25)	–	(25)
Eliminated on disposals	–	(486)	–	(689)	–	(1,175)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	29,127	4,269	7,152	17,787	2,395	60,730
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUE</b>						
At 31 March 2005	<u>107,064</u>	<u>204</u>	<u>–</u>	<u>13,424</u>	<u>684</u>	<u>121,376</u>
At 31 March 2004	<u>109,863</u>	<u>423</u>	<u>–</u>	<u>13,373</u>	<u>1,044</u>	<u>124,703</u>

The land and buildings of the Group are held under medium-term land use rights in the PRC.

At 31 March 2005, the net book value of property, plant and equipment of the Group included an amount of HK\$137,000 (2004: HK\$233,000) in respect of assets held under a finance lease.



## 14. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	63,988	63,988
Amounts due from subsidiaries	49,567	37,776
	<u>113,555</u>	<u>101,764</u>
Allowance on amounts due from subsidiaries	(19,319)	(20,247)
	<u>94,236</u>	<u>81,517</u>

Details of the Company's principal subsidiaries at 31 March 2005 are set out in note 42.

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts due from/to subsidiaries are unlikely to be repaid within twelve months from the balance sheet date and are therefore shown as non-current.

## 15. INTEREST IN AN ASSOCIATE

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	–	24,391
Goodwill	–	1,997
	<u>–</u>	<u>26,388</u>

The Group disposed of its 35% interest in Shenzhen SEG Scientific Navigations Co., Ltd. ("Shenzhen SEG") during the year.

## 16. DEPOSIT PAID FOR ACQUISITION OF ADDITIONAL INTEREST IN AN ASSOCIATE

With the disposal of the Group's 35% interest in Shenzhen SEG during the year, the deposit paid for the acquisition of an additional 17.6% equity interest in Shenzhen SEG was also disposed of during the year.

## 17. GOODWILL

	<b>THE GROUP</b>
	<i>HK\$'000</i>
<b>COST</b>	
Arising from acquisition of subsidiaries and at 31 March 2005	2,093
<b>AMORTISATION</b>	
Provided for the year and at 31 March 2005	<u>209</u>
<b>NET BOOK VALUE</b>	
At 31 March 2005	<u>1,884</u>
At 31 March 2004	<u>–</u>

**APPENDIX I****FINANCIAL INFORMATION ON THE GROUP**

The goodwill arising from acquisition of subsidiaries is amortised on a straight line basis over its estimated useful life of ten years.

**18. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finished goods, at cost	–	168

**19. TRADE AND OTHER RECEIVABLES**

The Group has defined credit terms with an average credit period of 90 days which are agreed with its trade customers individually. The aged analysis of trade receivables at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 3 months	11,850	2,482
3 to 6 months	680	175
6 to 12 months	410	67
Over 1 year	123	10
	13,063	2,734
Other receivables	11,665	3,674
	24,728	6,408

**20. LOANS RECEIVABLE**

	<b>THE GROUP</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured loans receivable ( <i>note i</i> )	15,000	10,500
Unsecured loans receivable ( <i>notes ii and iii</i> )	56,568	23,557
	71,568	34,057

*Notes:*

- (i) The loans are secured by the listed securities owned by the borrowers, bear interest at 5% per annum and are repayable within one year.
- (ii) The loans are placed through an investment trust company to end borrowers, bear interest at 6.9% per annum and are repayable within one year.
- (iii) The unsecured loans at 31 March 2005 were repaid subsequent to that date.

## 21. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other investments, equity securities listed overseas at market value	19,241	8,929	17,674	–

## 22. AMOUNT DUE FROM AN INVESTEE

The amount due from an investee of the Group was unsecured and interest-free. The amount was settled by the issue of additional shares of investee during the year.

## 23. AMOUNTS DUE FROM ULTIMATE HOLDING COMPANY/TO RELATED COMPANIES/MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

Mr. Robert Fung Hing Piu, a director of the Company has beneficial interests in the related companies.

## 24. TRADE AND OTHER PAYABLES

The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Less than 3 months	4,667	793
3 to 6 months	173	10
6 to 12 months	1	2
Over 1 year	344	425
	5,185	1,230
Other payables	19,646	14,798
	24,831	16,028

## 25. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
The maturity of obligations under a finance lease is as follows:				
Within one year	91	91	78	78
In the second to fifth year inclusive	53	144	46	125
	144	235	124	203
Less: Future finance charges	(20)	(32)	N/A	N/A
Present value of lease obligations	<u>124</u>	<u>203</u>	124	203
Less: Amount due within one year shown under current liabilities			(78)	(78)
Amount due over one year			<u>46</u>	<u>125</u>

The lease term is 3 years and the interest rate was fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under the finance lease are secured by the lessor's charge over the leased asset.

## 26. BANK BORROWINGS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Secured	56,504	60,968
Unsecured	32,019	42,403
	<u>88,523</u>	<u>103,371</u>
The maturity of the bank borrowings is as follows:		
On demand or within one year	88,523	78,037
More than one year, but not exceeding two years	–	25,334
	88,523	103,371
Less: Amount due within one year shown under current liabilities	(88,523)	(78,037)
Amount due over one year	<u>–</u>	<u>25,334</u>

The secured bank loans were secured by certain leasehold land and buildings of the Group (note 36).

## 27. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Shares of HK\$0.01 each		
Authorised:		
At 1 April 2003, 31 March 2004 and 31 March 2005	8,000,000,000	80,000
Issued and fully paid:		
At 1 April 2003 and 31 March 2004	4,536,565,000	45,365
Issue of shares pursuant to exercise of warrants	901,533,000	9,016
At 31 March 2005	5,438,098,000	54,381

All the shares issued during the year ranked pari passu with the then existing shares in all respects.

## 28. WARRANTS

Pursuant to a scheme which became effective on 26 August 2002, the Company issued 901,533,000 warrants and each warrant carries the right to subscribe in cash for one share in the Company, credited as fully paid, at a subscription price of HK\$0.023 each.

The warrants can be exercised at any time during a two year period from the date of the issue up to and including 25 August 2005.

All the warrants were exercised during the year.

## 29. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 April 2003	26,725	45,348	(58,832)	13,241
Net loss for the year	–	–	(1,019)	(1,019)
At 31 March 2004	26,725	45,348	(59,851)	12,222
Issue of shares pursuant to exercise of warrants	11,720	–	–	11,720
Net profit for the year	–	–	3,771	3,771
At 31 March 2005	38,445	45,348	(56,080)	27,713

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiary acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

In the opinion of the directors, at the balance sheet dates, the Company did not have any reserves available for distribution to shareholders.

### THE GROUP

Included in the capital reserve of the Group is an amount of HK\$231,292,000 (2004: HK\$281,292,000) which represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation on 26 August 2002 over the nominal value of the shares in the Company and in a subsidiary issued in exchange thereof respectively.

### 30. DEFERRED TAX

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior year:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>			
At 1 April 2003	(72)	72	–
(Charge) credit to income statement for the year	(5)	5	–
Change in tax rate	(7)	7	–
	<hr/>	<hr/>	<hr/>
At 31 March 2004	(84)	84	–
Disposal of subsidiaries	33	(33)	–
(Charge) credit to income statement for the year	(23)	23	–
	<hr/>	<hr/>	<hr/>
At 31 March 2005	<u>(74)</u>	<u>74</u>	<u>–</u>

At the balance sheet date, the Group had unused tax losses of HK\$119,776,000 (2004: HK\$117,512,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$493,000 (2004: HK\$560,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$119,283,000 (2004: HK\$116,952,000) due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of HK\$49,095,000 (2004: HK\$40,403,000) that will expire before year 2010 (2004: year 2009). Other tax losses may be carried forward indefinitely.

## 31. ACQUISITION OF SUBSIDIARIES

In November 2004, the Group acquired 60% equity interests in Guangzhou DiChain Logistics Company Limited and Jiangxi DiChain Logistics Company Limited. These two companies are incorporated in the PRC and are engaged in the provision of logistic services.

HK\$'000

Net assets acquired:

Property, plant and equipment	1,136
Trade and other receivables	9,055
Bank balances and cash	7,713
Trade and other payables	(4,598)
Bank borrowings	(4,994)
Minority interests	(3,334)

4,978

Goodwill

2,093

Consideration

7,071

Satisfied by:

Cash

7,071

Analysis of net cash inflow in respect of the acquisition of subsidiaries:

Cash consideration paid	(7,071)
Bank and cash balance acquired	7,713

Net inflow of cash and cash equivalents in respect of the purchase of subsidiaries

642

The subsidiaries acquired during the year contributed HK\$15,358,000 to the Group's turnover and HK\$165,000 to the Group's loss from operations.

## 32. DISPOSAL OF DISCONTINUED OPERATIONS/SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net (liabilities) assets disposed of:		
Property, plant and equipment	–	18,737
Inventories	156	1,488
Trade and other receivables	26	10,460
Bank balances and cash	–	634
Trade and other payables	(757)	(3,390)
Bank borrowings	–	(16,490)
Minority interests	–	(4,253)
	<u>(575)</u>	<u>7,186</u>
Capital reserve realised	300	1,450
Goodwill reserve realised	–	(721)
Translation reserve realised	–	(1,232)
	<u>(275)</u>	<u>6,683</u>
Gain (loss) on disposal of discontinued operations/subsidiaries	<u>275</u>	<u>(3,813)</u>
Total consideration	<u>–</u>	<u>2,870</u>
Satisfied by:		
Cash	–	1,370
Waiver of other payables	–	1,500
	<u>–</u>	<u>2,870</u>
Analysis of net cash inflow in respect of the disposal of discontinued operations/subsidiaries:		
Cash consideration received	–	1,370
Bank balances and cash disposed of	–	(634)
	<u>–</u>	<u>736</u>

During the year, the Group disposed of certain subsidiaries including that engaged in the discontinuing business in trading of electronic household appliances. The operating results of the discontinued operations are disclosed in note 8.

In 2004, the Group discontinued its businesses in production and distribution of edible oil and trading of food and beverage products at the time of disposal of certain subsidiaries.

The other subsidiaries disposed of during both years did not have a significant impact on the Group's turnover and operating results for the relevant year.



**33. MAJOR NON-CASH TRANSACTIONS**

During the year ended 31 March 2005, the Group entered into a settlement agreement with an investee, in which the investee settled an amount due to the Group amounting to approximately HK\$9,357,000 by issuing additional shares to the Group with fair value of the same amount.

During the year ended 31 March 2004:

- (a) the Group entered into a settlement agreement with an investee, in which the investee settled an amount due to the Group amounting to HK\$5,745,000 by issuing additional shares to the Group with fair value of the same amount;
- (b) the Group reclassified an amount due to a jointly controlled entity of HK\$716,000 to other payables upon disposal of the jointly controlled entity.

**34. OPERATING LEASE ARRANGEMENTS****The Group as lessee**

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Minimum lease payments paid under operating leases during the year in respect of premises	113	979

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Within one year	8,683	216	–	198
In the second to fifth year inclusive	4,994	–	–	–
	13,677	216	–	198

Operating lease payments represent rentals payable by the Group for certain of its office premises and warehouse. Leases are negotiated for an average term of one year and rentals are fixed over the lease terms.

**35. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Capital expenditure contracted but not provided for in the financial statements in respect of		
– acquisition of additional interest in an associate	–	1,362
– acquisition of property, plant and equipment	264	132
	264	1,494

**36. PLEDGE OF ASSETS**

At 31 March 2005, certain of the Group's leasehold land and buildings with an aggregate carrying value of HK\$119,540,000 (2004: HK\$109,863,000) were pledged to banks to secure loan facilities granted to the Group.

At 31 March 2004, the Group's investment properties with a carrying value of HK\$700,000 were also pledged to banks to secure loan facilities granted to the Group.

**37. CONTINGENT LIABILITIES**

At 31 March 2005, the Company had given guarantees of approximately HK\$84,810,000 (2004: HK\$98,945,000) to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 31 March 2005 amounted to approximately HK\$84,788,000 (2004: HK\$98,940,000).

**38. SHARE OPTIONS SCHEMES**

Pursuant to a written resolution of the sole shareholder passed on 21 June 2002, the Company's share option scheme (the "Scheme") was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the Company's issued share capital or with a value in excess of HK\$5 million, otherwise it must be approved by the shareholders of the Company.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from 12 months from the date of acceptance of the offer to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company. The vesting period is 12 months from the date of grant.

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The following table discloses the total entitlement of the employees (including directors) of the Company under the Scheme and movements in such holdings during the two years ended 31 March 2005:

Name of director	Exercise price HK\$	Exercisable period	Number of share options of the Company			
			Outstanding at 1.4.2003	Granted during the year	Exercise during the year	Outstanding at 31.3.2004
Fan Di	0.120	20.5.2004–21.6.2012	–	45,000,000	–	45,000,000
Li Xinggui	0.120	20.5.2004–21.6.2012	–	20,000,000	–	20,000,000
Wu Shiyue	0.120	20.5.2004–21.6.2012	–	25,000,000	–	25,000,000
Zheng Yingsheng	0.120	20.5.2004–21.6.2012	–	7,500,000	–	7,500,000
Zhu Xiaojun	0.120	20.5.2004–21.6.2012	–	10,000,000	–	10,000,000
Wang Shizhen	0.120	20.5.2004–21.6.2012	–	5,000,000	–	5,000,000
Robert Fung Hing Piu	0.120	20.5.2004–21.6.2012	–	1,500,000	–	1,500,000
Iain Ferguson Bruce	0.120	20.5.2004–21.6.2012	–	1,500,000	–	1,500,000
Barry John Buttifant	0.120	20.5.2004–21.6.2012	–	1,500,000	–	1,500,000
			–	117,000,000	–	117,000,000
Employees	0.120	20.5.2004–21.6.2012	–	32,500,000	–	32,500,000
Total			–	149,500,000	–	149,500,000

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Name of director	Exercise price HK\$	Exercisable period	Number of share options of the Company					Outstanding at 31.3.2005
			Outstanding at 1.4.2004	Granted during the year	Exercise during the year	Transfer during the year	Lapsed during the year	
Fan Di	0.120	20.5.2004–21.6.2012	45,000,000	–	–	–	–	45,000,000
	0.062	18.8.2005–20.6.2012	–	22,000,000	–	–	–	22,000,000
Li Xinggui	0.120	20.5.2004–21.6.2012	20,000,000	–	–	–	–	20,000,000
	0.062	18.8.2005–20.6.2012	–	3,000,000	–	–	–	3,000,000
Wu Shiyue	0.120	20.5.2004–21.6.2012	25,000,000	–	–	–	–	25,000,000
	0.062	18.8.2005–20.6.2012	–	10,000,000	–	–	–	10,000,000
Zheng Yingsheng	0.120	20.5.2004–21.6.2012	7,500,000	–	–	–	–	7,500,000
	0.062	18.8.2005–20.6.2012	–	3,000,000	–	–	–	3,000,000
Zhou Li Yang	0.120	20.5.2004–21.6.2012	–	–	–	3,500,000	–	3,500,000
	0.062	18.8.2005–20.6.2012	–	12,000,000	–	–	–	12,000,000
Zhu Xiaojun	0.120	20.5.2004–21.6.2012	10,000,000	–	–	–	(10,000,000)	–
	0.062	18.8.2005–20.6.2012	–	2,000,000	–	–	(2,000,000)	–
Wang Shizhen	0.120	20.5.2004–21.6.2012	5,000,000	–	–	–	–	5,000,000
	0.062	18.8.2005–20.6.2012	–	2,000,000	–	–	–	2,000,000
Robert Fung Hing Piu	0.120	20.5.2004–21.6.2012	1,500,000	–	–	–	–	1,500,000
	0.062	18.8.2005–20.6.2012	–	2,000,000	–	–	–	2,000,000
Iain Ferguson Bruce	0.120	20.5.2004–21.6.2012	1,500,000	–	–	–	–	1,500,000
	0.062	18.8.2005–20.6.2012	–	2,000,000	–	–	–	2,000,000
Barry John Buttifant	0.120	20.5.2004–21.6.2012	1,500,000	–	–	–	–	1,500,000
	0.062	18.8.2005–20.6.2012	–	2,000,000	–	–	–	2,000,000
Victor Yang	0.0624	28.9.2005–20.6.2012	–	2,000,000	–	–	–	2,000,000
			<u>117,000,000</u>	<u>62,000,000</u>	<u>–</u>	<u>3,500,000</u>	<u>(12,000,000)</u>	<u>170,500,000</u>
Employees	0.120	20.5.2004–21.6.2012	32,500,000	–	–	(3,500,000)	(21,500,000)	7,500,000
	0.062	18.8.2005–20.6.2012	–	23,000,000	–	–	(6,000,000)	17,000,000
Total			<u>149,500,000</u>	<u>85,000,000</u>	<u>–</u>	<u>–</u>	<u>(39,500,000)</u>	<u>195,000,000</u>

Total consideration received during the year for options granted was HK\$28 (2004: HK\$17).

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

### **39. RETIREMENT BENEFIT SCHEMES**

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which is matched by employees. At the balance sheet date, there was no forfeited contribution for the reduction in contributions payable in the future years.

Employees of subsidiaries in the PRC are members of a state-managed retirement benefit scheme ("PRC Scheme") operated by the relevant local government authorities in the PRC. The Group is required to contribute 8% to 23.5% of its payroll costs to the PRC Scheme to fund the benefits.

The only obligation of the Group with respect to the MPF Scheme and the PRC Scheme is to make the specified contributions. The amount contributed to the MPF Scheme and the PRC Scheme amounted to HK\$75,000 (2004: HK\$128,000) and HK\$132,000 (2004: HK\$254,000), respectively.

### **40. POST BALANCE SHEET EVENT**

On 16 May 2005, the Group entered into a Memorandum of Understanding with a third party in relation to a possible joint venture project with a proposed investment of RMB200M. Details are set out in the Company's announcement dated 18 May 2005.

### **41. CONNECTED AND RELATED PARTY TRANSACTIONS**

During the year, the Group received management fee income of HK\$2,400,000 (2004: HK\$2,200,000) from an investee. The management fee was charged in accordance with the agreement entered into by the relevant parties.

At 31 March 2005, Fan Di had given a personal guarantee amounting to HK\$56,604,000 to a bank in respect of banking facilities granted to the Group.

At 31 March 2004, the ultimate holding company had given corporate guarantees amounting to HK\$14,135,000 to a bank in respect of banking facilities granted to the Group.

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 March 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Proportion of nominal value of issued share capital/registered capital held by the Company		Issued and fully paid share capital/ registered capital	Principal activities
		Directly	Indirectly		
Dransfield Holdings Limited	Bermuda	100%	–	HK\$100,000	Investment holdings
Dransfield Services Limited	British Virgin Islands/PRC	–	100%	US\$1	Provision of logistics services
DiChain (Asia) Logistics Holdings Limited	British Virgin Islands/PRC	–	100%	US\$1	Provision of logistics services
DiChain Logistics Services (Shenzhen) Co., Ltd.	PRC ( <i>Note a</i> )	–	100%	HK\$35,000,000	Provision of logistics services and property and investment holding
Guangzhou DiChain Logistics Co., Ltd. (Formerly known as Guangzhou Meiri Logistics Company Limited)	PRC ( <i>Note b</i> )	–	60%	RMB9,500,000	Provision of logistics services
Inner Mongolia DiChain Logistics Co., Ltd.	PRC ( <i>Note b</i> )	–	60%	RMB5,000,000	Provision of logistics services
Jiangxi DiChain Logistics Co., Ltd.	PRC ( <i>Note b</i> )	–	60%	RMB500,000	Provision of logistics services
Victorison Logistics Limited	Hong Kong	–	100%	HK\$ 100,000	Provision of secretarial and management services

*Notes:*

- a. Wholly foreign owned enterprise
- b. Domestic owned enterprise

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 3. SUMMARY OF UNAUDITED FINANCIAL STATEMENTS

Set out below is the unaudited condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the condensed consolidated financial statements of the Group as extracted from pages 1 to 15 of the interim report of the Company for the six months ended 30 September 2005. Reference to page number in this appendix are to the page numbers of such interim report of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 September</b>	
		<b>2005</b>	<b>2004</b>
	<i>Notes</i>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	41,045	9,097
Cost of sales		<u>(29,373)</u>	<u>(4,175)</u>
Gross profit		11,672	4,922
Other operating income		4,500	3,051
Selling expenses		(3,058)	(380)
Administrative expenses		(11,756)	(11,280)
Unrealized holding loss on investments in securities		<u>(9,864)</u>	<u>(7,871)</u>
Loss from operations	4	(8,506)	(11,558)
Interest on bank borrowings wholly repayable within five years		(2,928)	(2,858)
Finance lease charges		(17)	–
Gain on disposal of subsidiaries	16	19,711	–
Share of results of an associate		<u>–</u>	<u>1,082</u>
Profit (loss) before taxation		8,260	(13,334)
Taxation	5	<u>(637)</u>	<u>(119)</u>
Profit (loss) for the period		<u><u>7,623</u></u>	<u><u>(13,453)</u></u>
Attributable to:			
Equity holders of the parent		7,387	(13,453)
Minority interests		<u>236</u>	<u>–</u>
		<u><u>7,623</u></u>	<u><u>(13,453)</u></u>
Earnings (loss) per share	7		
Basic		<u><u>0.14 cent</u></u>	<u><u>(0.28) cent</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2005 (Unaudited) HK\$'000	At 31 March 2005 (Audited) (Restated) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		102,412	101,656
Goodwill		1,884	1,884
Prepaid lease payments		18,931	19,194
		<u>123,227</u>	<u>122,734</u>
Current assets			
Trade and other receivables	8	23,408	24,728
Deposit paid for a possible acquisition	9	42,000	–
Loans receivable		30,400	71,568
Prepaid lease payments		526	526
Investments in securities		8,317	19,241
Amounts due from investees		3,651	–
Amount due from ultimate holding company		–	29
Bank balances and cash		683	4,183
		<u>108,985</u>	<u>120,275</u>
Current liabilities			
Trade and other payables	10	10,649	24,831
Amounts due to related companies		130	2,426
Amount due to a minority shareholder of a subsidiary		–	1,674
Tax payable		425	245
Obligations under a finance lease – due within one year		–	78
Bank borrowings – due within one year		86,254	88,523
		<u>97,458</u>	<u>117,777</u>



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		<b>At 30 September 2005 (Unaudited) HK\$'000</b>	<b>At 31 March 2005 (Audited) (Restated) HK\$'000</b>
	<i>Notes</i>		
Net current assets		<u>11,527</u>	<u>2,498</u>
Total assets less current liabilities		<u>134,754</u>	<u>125,232</u>
Non-current liabilities			
Obligations under a finance lease			
– due after one year		<u>–</u>	<u>46</u>
		<u>134,754</u>	<u>46</u>
		<u>134,754</u>	<u>125,186</u>
Capital and reserves			
Share capital	<i>11</i>	54,381	54,381
Reserves		<u>76,820</u>	<u>67,488</u>
Equity attributable to equity holders of the parent		131,201	121,869
Minority interests		<u>3,553</u>	<u>3,317</u>
Total equity		<u>134,754</u>	<u>125,186</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Minority interests HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	
At 1 April 2005							
– as originally stated	38,445	403,851	3,426	–	(378,234)	67,488	3,317
Effect of changes in accounting policies (Note 2)	–	–	–	375	(375)	–	–
– as restated	38,445	403,851	3,426	375	(378,609)	67,488	3,317
Exchange differences arising on translation of foreign operations	–	–	1,832	–	–	1,832	–
Net income (expenses) recognised directly in equity	38,445	403,851	5,258	375	(378,609)	69,320	3,317
Profit for the period	–	–	–	–	7,387	7,387	236
Total recognised income and expenses for the period	38,445	403,851	5,258	375	(371,222)	76,707	3,553
Recognition of equity-settled share based payments	–	–	–	113	–	113	–
At 30 September 2005	<u>38,445</u>	<u>403,851</u>	<u>5,258</u>	<u>488</u>	<u>(371,222)</u>	<u>76,820</u>	<u>3,553</u>
At 1 April 2004	26,725	403,551	3,361	–	(359,813)	73,824	–
Issue of shares on exercise of warrants	11,720	–	–	–	–	11,720	–
Exchange differences arising on translation of foreign operations	–	–	(2)	–	–	(2)	–
Release upon disposal of a subsidiary	–	300	–	–	–	300	–
Net income (expenses) recognised directly in equity	38,445	403,851	3,359	–	(359,813)	85,842	–
Loss for the period	–	–	–	–	(13,453)	(13,453)	–
At 30 September 2004	<u>38,445</u>	<u>403,851</u>	<u>3,359</u>	<u>–</u>	<u>(373,266)</u>	<u>72,389</u>	<u>–</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Net cash outflow from operating activities	(4,122)	(7,146)
Net cash inflow from investing activities	<u>3,648</u>	<u>14,382</u>
Net cash (out)inflow before financing activities	(474)	7,236
Net cash (out)inflow from financing activities	<u>(3,050)</u>	<u>10,858</u>
(Decrease) increase in cash and cash equivalents	(3,524)	18,094
Effect of changes in exchange rate	24	–
Cash and cash equivalents brought forward	<u>4,183</u>	<u>25,365</u>
Cash and cash equivalents carried forward	<u><u>683</u></u>	<u><u>43,459</u></u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. BASIS OF PREPARATION**

The unaudited condensed interim consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) No. 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed interim consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKAS and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

**(i) Business Combinations**

In the current period, the Group has applied HKFRS 3 Business Combinations, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarized below:

*Goodwill*

In previous periods, goodwill arising on acquisitions after 1 April 2001 was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalized on the balance sheet, the Group has discontinued amortizing such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current period. Comparative figures have not been restated.

In the current period, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 April 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior period adjustment has been made.

**(ii) Share-based Payments**

In the current period, the Group has applied HKFRS 2 Share-based Payment, which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share

options that were granted after 7 November 2002 and vested before 1 April 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005. Comparative figures have been restated.

**(iii) Financial Instruments**

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 April 2005, generally does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealized gains or losses included in the income statement. Held-to-maturity investments are carried at amortized cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognized in income statement and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortized cost using the effective interest method.

On 1 April 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Upon the adoption of the HKAS 39, other investments reported under SSAP 24 were classified as financial assets at fair value through profit or loss. Accordingly, no prior period adjustment was required.

**(iv) Owner-occupied Leasehold Interest in Land**

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and stated at cost less depreciation and accumulated impairment losses. In the current period, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on straight-line basis. The financial impact regarding to this change in accounting policy is considered as immaterial and no prior period adjustment has been made. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

## 3. SEGMENT INFORMATION

	Turnover		Loss from operations	
	Six months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Continuing operations Logistics	41,045	8,260	1,943	95
Discontinued operations				
Electronic household appliances	—	837	—	(178)
	<u>41,045</u>	<u>9,097</u>	1,943	(83)
Unrealized holding loss on investments on securities			(9,864)	(7,871)
Unallocated corporate expenses			<u>(585)</u>	<u>(3,604)</u>
Loss from operations			<u>(8,506)</u>	<u>(11,558)</u>
By geographical area:				
Hong Kong	—	837		
The People's Republic of China	<u>41,045</u>	<u>8,260</u>		
	<u>41,045</u>	<u>9,097</u>		

## 4. LOSS FROM OPERATIONS

	Six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The Group's loss from operations has been arrived at after charging:		
Depreciation and amortization	2,448	2,325
and after crediting:		
Interest income from:		
Loans receivable	218	219
Bank	7	28
Debt securities	<u>1,388</u>	<u>1,102</u>

## 5. TAXATION

	Six months ended 30 September	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>
Current tax		
Hong Kong	–	119
Other jurisdictions	637	–
	<u>637</u>	<u>–</u>
	<u>637</u>	<u>119</u>

Last period's amount represented payment of Hong Kong Profits Tax underprovided in prior years. No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit in Hong Kong for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 6. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend (2004: Nil).

## 7. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share attributable to the ordinary equity holders of the parent is based on the following data:

	Six months ended 30 September	
	2005 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>
Earnings (loss) for the purpose of calculating basic earnings (loss) per share:		
Net profit (loss) for the period	<u>7,387</u>	<u>(13,453)</u>
Weighted average number of shares for the purpose of calculating basic earnings (loss) per share (in thousands)	<u>5,438,098</u>	<u>4,777,320</u>

No diluted earnings (loss) per share is presented as the exercise of the Company's outstanding share options for the six months ended 30 September 2005 and 30 September 2004 would result in an increase in earnings per share and a decrease in loss per share respectively.

**8. TRADE AND OTHER RECEIVABLES**

The following is an aged analysis of accounts receivable at the reporting date:

	<b>At 30 September 2005 (Unaudited) HK\$'000</b>	<b>At 31 March 2005 (Audited) HK\$'000</b>
Less than 3 months	15,016	11,850
3 to 6 months	471	680
6 to 12 months	710	410
Over 1 year	–	123
	<hr/>	<hr/>
Other receivables	16,197	13,063
	7,211	11,665
	<hr/>	<hr/>
	<b>23,408</b>	<b>24,728</b>
	<hr/> <hr/>	<hr/> <hr/>

**9. DEPOSIT PAID FOR A POSSIBLE ACQUISITION**

The deposit was paid for a possible acquisition of a logistic company with operation in Yixing of the PRC.

**10. TRADE AND OTHER PAYABLES**

The following is an aged analysis of accounts payable at the reporting date:

	<b>At 30 September 2005 (Unaudited) HK\$'000</b>	<b>At 31 March 2005 (Audited) HK\$'000</b>
Less than 3 months	5,573	4,667
3 to 6 months	360	173
6 to 12 months	74	1
Over 1 year	173	344
	<hr/>	<hr/>
Other payables	6,180	5,185
	4,469	19,646
	<hr/>	<hr/>
	<b>10,649</b>	<b>24,831</b>
	<hr/> <hr/>	<hr/> <hr/>



**11. SHARE CAPITAL**

	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.01 each		
Authorized:		
At 31 March 2005 and 30 September 2005	<u>8,000,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 31 March 2005 and 30 September 2005	<u>5,438,098,000</u>	<u>54,381</u>

**12. SHARE OPTION SCHEME**

The Company adopted the new share option scheme on 21 June 2002 (the "Scheme"). The Scheme enables the Company to grant share options to eligible persons as an incentive or reward for their contributions to the Company. The terms of the Scheme fully comply with the provisions of Chapter 17 of the Listing Rules. During the period, options amounting to 348,500,000 shares were granted to eligible persons including the directors of the Company. No share options were exercised under the Scheme during the period. At 30 September 2005, the Company had 537,000,000 share options outstanding under the Scheme.

**13. CAPITAL COMMITMENTS**

	<b>At 30 September 2005 (Unaudited) HK\$'000</b>	<b>At 31 March 2005 (Audited) HK\$'000</b>
Capital expenditure contracted but not provided for in the financial statements in respect of acquisition of property, plant and equipment	<u>–</u>	<u>264</u>

**14. PLEDGE OF ASSETS**

At 30 September 2005, certain of the Group's land and buildings with an aggregate carrying value of HK\$107,462,000 (31 March 2005: HK\$119,540,000) were pledged to a bank to secure loan facilities granted to the Group.

**15. CONTINGENT LIABILITIES**

At 30 September 2005, the Company had given guarantees of approximately HK\$86,323,000 (31 March 2005: HK\$84,810,000) to banks in respect of banking facilities granted to a subsidiary. The extent of such facilities utilized by the subsidiary at 30 September 2005 amounted to approximately HK\$86,254,000 (31 March 2005: HK\$84,788,000).

**16. DISPOSAL OF SUBSIDIARIES**

During the period, the Group entered into a sale agreement to dispose of certain subsidiaries (the “disposed subsidiaries”).

The net liabilities of the disposed subsidiaries at the date of disposal were as follows:

	<b>At the date of disposal</b> <i>HK\$'000</i>
Net liabilities disposed of:	
Property, plant and equipment	206
Investments in securities	1,060
Trade and other receivables	577
Bank balances and cash	212
Trade and other payables	(18,031)
Bank borrowings	(3,735)
	<hr/>
Gain on disposal of subsidiaries	(19,711)
	<hr/>
Gain on disposal of subsidiaries	19,711
	<hr/>
Total consideration	<u><u>–</u></u>

The disposed subsidiaries did not make any significant contribution to the cash flows of the Group during the interim period.

**17. POST BALANCE SHEET EVENT**

On 1 December 2005, the Company entered into a Subscription Agreement with a third party in relation to the issue of a convertible note and the grant of the option. Details are set out in the Company’s circular dated 13 December 2005.

**18. RELATED PARTY TRANSACTIONS**

During the period, the Group charged an investee management fee income of HK\$1,200,000. The transaction was carried out on terms determined and agreed by the relevant parties.

No qualified opinion had been issued by the Company's auditors for each of the three years ended 31 March 2005.

#### **4. INDEBTEDNESS**

As at 28 February 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had short term bank loans of approximately HK\$86,255,268. The Group's leasehold land and buildings of HK\$106,255,800 had been pledged to a bank to secure loan facilities granted to the Group.

Save as aforesaid, the Group did not have any mortgages, charges, finance lease obligations, debentures or other loan capital, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances or guarantees or other material contingent liabilities outstanding as at the close of business on 28 February 2006.

#### **5. MATERIAL CHANGE**

In January 2006, a litigation was lodged against the Company and DiChain Logistic Services (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, by Guangdong Development Bank, Shenzhen Xiangmihu Branch, in relation to a default on payment of a loan of approximately RMB30 million granted by Guangdong Development Bank, Shenzhen Xiangmihu Branch to DiChain Logistic Services (Shenzhen) Co., Ltd. (the "Litigation"). The Company was a guarantor for the loan. The court hearing scheduled to be held in the Shenzhen Intermediate People's court on 7 March 2006 was adjourned to a date to be notified by the Shenzhen Intermediate People's Court as the Company has filed an appeal on the issue of the jurisdiction of the Shenzhen Intermediate People's Court over a Bermuda company. No provisions have been made in the accounts of the Company as the loan has been recorded in the accounts of DiChain Logistic Services (Shenzhen) Co., Ltd. and accounted for in the consolidated accounts of the Company as at 30 September 2005 in the interim results of the Company.

The Directors expect that should the Company and DiChain Logistic Services (Shenzhen) Co., Ltd. lose the Litigation, the Group will have an immediate outflow of cash of RMB30 million. However, there are no impacts on the consolidated profit and loss account of the Group.

Save for the Litigation and the Group's interim results for the six months ended 30 September 2005, we hereby confirm that there are no material changes in the financial or trading position or outlook of the Group since 31 March 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **6. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal resources and the banking facilities available to the Group and the net proceed to be raised from the Share Subscription and Issue of Convertible Notes, the Group will have sufficient working capital for at least twelve months from the date of this circular.

For illustrative purpose only, the pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out herein to provide the investors with further information about how the proposed subscription of new shares, issue of convertible notes, grant of option and share consolidation might have affected the financial position of the Group after completion.

### 1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible asset value of the Group prepared based on the unaudited consolidated financial statements of the Group as at 30 September 2005 extracted from its interim report for the six months ended 30 September 2005 as set out in Appendix I and adjusted to reflect the effects of the Share Subscription, Issue of Convertible Notes, Grant of Option and Share Consolidation which might have affected the net tangible asset value of the Group. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Group will be on completion of the Share Subscription, Issue of Convertible Notes and Grant of Option.

	As at 30 September 2005 (Unaudited) HK\$'000 (Note 2)	Estimated proceeds from the Share Subscription HK\$'000 (Note 1(i))	Estimated proceeds from the Issue of Convertible Notes HK\$'000 (Note 3)	Estimated proceeds from the exercise of Option HK\$'000 (Note 1(iii))	Pro forma HK\$'000
Net tangible asset value	132,870	40,000	30,000	10,000	212,870
Less: Issuing expenses (Note 4)					(400)
					212,470
Unaudited consolidated net tangible asset value per Consolidated Share as at 30 September 2005 and prior to completion of the Share Subscription, Issue of Convertible Notes and Grant of Option (Note 5)					HK\$1.222
Unaudited pro forma adjusted consolidated net tangible asset value per Consolidated Share upon completion of Share Subscription, issues of Conversion Shares and Option Shares (Note 6) and Share Consolidation taking effect					HK\$0.791

*Notes:*

1. The above pro forma statement is prepared on the following assumptions:
  - (i) the total consideration of the Subscription Shares of 4,000,000,000 shares at a price of HK\$0.01 per Share had been fully settled on 30 September 2005.  
  
Details of the Share Subscription are set out in page 8 of this circular;
  - (ii) the Convertible Notes had been fully converted on 30 September 2005 at a conversion price of HK\$0.01 per Conversion Share.  
  
Details of the terms of the Convertible Notes are set out in pages 9 to 12 of this circular;
  - (iii) the subscriber has fully subscribed 1,000,000,000 Option Shares at the initial exercise price of HK\$0.01 per Option Share on 30 September 2005.  
  
Details of the terms of the Grant of Option are set out in pages 12 to 14 of this circular;
  - (iv) the consolidation of every 50 shares in the issued and unissued share capital of the Company of HK\$0.01 each into one Consolidated Share in the issued and unissued share capital of the Company of HK\$0.50 each had been fully completed on 30 September 2005.  
  
Details of the Share Consolidation are set out in pages 26 to 27 of this circular.
2. As at 30 September 2005, the unaudited consolidated net asset value of the Group included goodwill amounting to approximately HK\$1,884,000 which are considered as intangible asset and is excluded to arrive at the unaudited consolidated net tangible asset value of the Group as at 30 September 2005. The unaudited consolidated financial position of the Group are set out in pages 100 to 111 of this circular. The auditors of the Company had not carried out any review on the unaudited consolidated net asset value of the Company as at 30 September 2005.
3. The estimated proceeds from the Issue of Convertible Notes are based on 108,761,960 Consolidated Shares (being 5,438,098,000 Ex-Shares in issue as at 30 September 2005 adjusted for the effect of the Share Consolidation) and a subscription price of HK\$0.01 per Convertible Notes with principal value of HK\$0.01.
4. The issuing expenses include the professional fees, printing charges and sundry expenses in respect of the Share Subscription, Issue of Convertible Notes and Grant of Option.
5. Such per share value is based on 108,761,960 Consolidated Shares (being 5,438,098,000 ordinary shares of the Company prior to the Share Consolidation in issue as at 30 September 2005 adjusted for the effect of the Share Consolidation).
6. Such per share value is based on 268,761,960 Consolidated Shares (calculated as 108,761,960 Consolidated Shares in issue as referred to in note 3 above plus 160,000,000 Consolidated Shares to issue upon completion of the Share Subscription, full conversion of the Convertible Notes and full exercise of the Option).
7. In accordance with Hong Kong Accounting Standard (“HKAS”) 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”, the liability component and the equity conversion component of the Convertible Notes and the embedded derivative not closely related to the liability component should be separately accounted for. The liability component and the embedded derivative are included in liabilities and assets, respectively while the equity conversion component is included in shareholders’ equity. For the purpose of compiling this unaudited pro forma financial information, the Convertible Notes was assumed to be converted to shareholders’ equity immediately upon issue. Hence, no adjustment was made to reflect the potential financial impact of the liability component and the embedded derivative.

**2. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report from CCIF CPA Limited, the reporting accountants to the Company, in connection with the unaudited pro forma financial information of the Group.

**CCIF****CCIF CPA LIMITED**37/F Hennessy Centre  
500 Hennessy Road  
Causeway Bay, Hong Kong**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA MERCHANTS DICHAIN (ASIA) LIMITED**

We report on the unaudited pro forma financial information of China Merchants DiChain (Asia) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed subscription of new shares, issue of convertible notes, grant of option and share consolidation might have affected the financial information presented, for inclusion in Appendix II to the Circular of China Merchants DiChain (Asia) Limited dated 4 May 2006. The basis of preparation of the pro forma financial information is also set out in Appendix II to the Circular.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by the auditors of the Group on any financial information used in the compilation of the unaudited pro forma financial information.

**BASIS OF OPINION**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagement (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2005 or any future date.

**OPINION**

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**CCIF CPA Limited**  
*Certified Public Accountants*  
Hong Kong, 4 May 2006  
**Chan Wai Dune, Charles**  
Practising Certificate Number P00712

*The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 March 2006 of the property held by the Group.*

## **BMI APPRAISALS**

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6-8號瑞安中心3111-18室

Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863

Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

4 May 2006

The Directors

China Merchants DiChain (Asia) Limited

Unit 3611, 36th Floor

West Tower, Shun Tak Centre

168 – 200 Connaught Road Central

Hong Kong

Dear Sirs

### **INSTRUCTIONS**

We refer to the instructions from China Merchants DiChain (Asia) Limited (the “Company”) to value the property held by the Company and its subsidiaries (together referred to as the “Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have performed an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 31 March 2006 (the “date of valuation”).

### **BASIS OF VALUATION**

Our valuation of the concerned property has been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

### **VALUATION METHODOLOGY**

Owing to the inherent nature of usage and lack of market sales comparables for the property, this property has been valued on the basis of its Depreciated Replacement Cost. Depreciate replacement cost is defined as “the aggregate amount of the value of the land for



the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of value for assets without a known used market.

### **TITLE INVESTIGATION**

We have been provided with extracts of title documents and have been advised by the Group that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies, handed to us. Therefore, in the course of our valuation, we have relied on the advice and information given by the Group and its PRC legal advisers regarding the title of such PRC property.

### **VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the property is sold in the open market in its existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement of any similar arrangement which might serve to affect the value of the property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the property and no forced sale situation in any manner is assumed in our valuation.

In valuing the property, we have relied on the advice given by the Group that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

### **VALUATION CONSIDERATIONS**

We have inspected the exterior and wherever possible, the interior of the property. During the course of our inspection, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the property. We are, therefore, unable to report that the property is free from rot, infestation or any other structural defects.

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group in such matters as approvals or statutory notices, easements, tenure, particulars of occupancy, site / floor areas, identification of the property and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/ floor areas in respect of the property but have assumed that the site/ floor areas shown on the documents handed to us are correct.

Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate is based on information contained in the documents provided to us by the Group and are therefore approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and the Group has also advised us that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Based on the prevailing rules and regulations as at the date of valuation and the information provided by the Group, for the property located in the PRC, the potential tax liabilities include the Business Tax at 5% of the contracted sales amount, Profits Tax at 15% on net profits gained, City Development Tax at 1% of the Business Tax and Stamp Duty at 0.05% of the contracted sales amount. The exact amount of tax payable upon realization of the property will be subject to the formal tax advice issued by the relevant tax authority at the time of disposal of the property upon presentation of the relevant transaction document.

However, as advised by the Group that the Group will continue to occupy the property in its existing state for its godown and logistic businesses, the likelihood of any tax liabilities being crystallized is, therefore, remote.

In valuing the property, we have complied with the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition) published by The Royal Institution of Chartered Surveyors effective from May 2003; and the HKIS Valuation Standards on Properties (First Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

**REMARKS**

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

Our summary of value and the valuation certificate are attached herewith.

Yours faithfully  
For and on behalf of  
**BMI APPRAISALS LIMITED**  
**Joannau W.F. Chan**  
**BSc. MRICS MHKIS RPS (GP)**  
**Director**

*Notes:*

Ms. Joannau W.F. Chan is a Chartered Surveyor who has over 13 years' experience in valuations of properties in Hong Kong and over 7 years' experience in valuations of properties in the People's Republic of China.

**SUMMARY OF VALUE**

<b>Property</b>	<b>Market Value in existing state as at 31 March 2006 <i>RMB</i></b>
A godown development located at Futian Free Trade Zone Shenzhen the PRC	110,000,000
<b>Total:</b>	<hr/> <b>110,000,000</b> <hr/>

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2006 RMB																														
A godown development located at Futian Free Trade Zone Shenzhen the PRC	The property comprises an 8-storey (including four mezzanine floors) purpose-built godown building, completed in 1997, erected on a parcel of land with a site area of approximately 10,066 sq.m.  The total gross floor area (“GFA”) of the godown building is approximately 24,165 sq.m. and the details of which are summarized as below:	The property is occupied by the Group as a godown and associated logistic service centre.	110,000,000																														
	<table border="1"> <thead> <tr> <th style="text-align: left;">Level</th> <th style="text-align: left;">Uses</th> <th style="text-align: right;">GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>1st</td> <td>Entrance hall, Loading/unloading bays, and high bay warehouse</td> <td style="text-align: right;">5,045</td> </tr> <tr> <td>2nd (Mezz./F)</td> <td>Exhibition area</td> <td style="text-align: right;">1,153</td> </tr> <tr> <td>3rd (Mezz./F)</td> <td>Storage</td> <td style="text-align: right;">1,814</td> </tr> <tr> <td>4th (Mezz./F)</td> <td>Storage</td> <td style="text-align: right;">1,995</td> </tr> <tr> <td>5th</td> <td>Storage</td> <td style="text-align: right;">5,045</td> </tr> <tr> <td>6th (Mezz./F)</td> <td>Packaging workshop</td> <td style="text-align: right;">1,366</td> </tr> <tr> <td>7th</td> <td>Storage and office</td> <td style="text-align: right;">5,045</td> </tr> <tr> <td>8th</td> <td>Office, storage and common room</td> <td style="text-align: right;">2,702</td> </tr> <tr> <td></td> <td style="text-align: right;">Total:</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">24,165</td> </tr> </tbody> </table>	Level	Uses	GFA (sq.m.)	1st	Entrance hall, Loading/unloading bays, and high bay warehouse	5,045	2nd (Mezz./F)	Exhibition area	1,153	3rd (Mezz./F)	Storage	1,814	4th (Mezz./F)	Storage	1,995	5th	Storage	5,045	6th (Mezz./F)	Packaging workshop	1,366	7th	Storage and office	5,045	8th	Office, storage and common room	2,702		Total:	24,165		
Level	Uses	GFA (sq.m.)																															
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8th	Office, storage and common room	2,702																															
	Total:	24,165																															

The land use rights of the property have been granted for a term of 50 years commencing 31 July 1993 and expiring on 30 July 2043 for warehouse uses.

*Notes:*

- Pursuant to a Land Use Rights Contract, Shen Fu Bao Di Zi No. 7 dated 31 July 1993, entered into between Shenzhen City Futian Free Trade Zone Committee and Good Value Holdings Limited (有利實業有限公司), a wholly-owned subsidiary of the Company, the former has granted the land use rights of the property with a site area of 10,066.186 sq.m. to the latter for a term of 50 years commencing on 31 July 1993 and expiring on 30 July 2043 for warehouse uses.
- Pursuant to 7 Real Estate Title Certificates Nos. 9000404 to 9000410 all registered on 5 January 2005, the property with a total gross floor area of approximately 24,165.65 sq.m. and a site area of approximately 10,066 sq.m. is legally vested in DiChain Logistics Services (Shenzhen) Co. Ltd. (迪辰倉儲服務(深圳)有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years commencing on 31 July 1993 and expiring on 30 July 2043 for warehouse uses.

3. Pursuant to the Other Encumbrance Rights Summaries to the above Real Estate Title Certificates, the property is subject to a mortgage dated 20 March 2003 in favour of Shenzhen City Commercial Bank – Shekou Branch.
4. Pursuant to a Mortgage Contract dated 25 January 2005, the property is subject to a renewed mortgage in favour of Shenzhen Commercial Bank, Shekou Branch for a term of 1 year commencing on 28 January 2005, which has been extended for a further period of 9 months expiring on 28 October 2006.
5. According to the PRC legal opinion to the Group, there is a litigation on a loan agreement entered into between DiChain Logistics Services (Shenzhen) Co. Ltd. (迪辰倉儲服務(深圳)有限公司) (Party A), China Merchants DiChain (Asia) Limited (Party B) and 廣東發展銀行股份有限公司 – 深圳香蜜湖支行 (Guangdong Development Bank, Shenzhen Xiangmihu Branch) (Party C). Party C has applied to 深圳市中級人民法院 (Shenzhen Intermediate People’s Court) for estate preservation.
6. The status of title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:
- |                                |     |
|--------------------------------|-----|
| Land Use Rights Contract       | Yes |
| Real Estate Title Certificates | Yes |
7. The opinion of the PRC legal adviser to the Group contains, inter alia, the following:
- a. The property is legally vested in the Group;
  - b. The property is not subject to any other material encumbrances except the aforesaid mortgage and the litigation on the loan agreement; and
  - c. All land premium and other costs of utility services have been settled in full.
8. We have prepared our valuation based on the following assumptions:
- a. The Group is in possession of a proper legal title to the property and are entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - b. All land premium and other costs of ancillary utility services have been settled in full;
  - c. The property is not subject to any material encumbrances except the aforesaid mortgage and the litigation on the loan agreement;
  - d. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant government authorities; and
  - e. The property may be disposed of freely to both local and overseas purchasers.

*The information set out in this Appendix serves as the explanatory statement required under Rule 10.06(1)(b) of the Listing Rules to provide Shareholders with all the information reasonably necessary for them to make an informed decision on whether to vote for or against the ordinary resolution approving the Repurchase Mandate.*

## **SHARE CAPITAL**

As at the Latest Practicable Date, the aggregate nominal amount of issued share capital of the Company was HK\$54,380,980 comprising 5,438,098,000 Shares. Immediately upon completion of the Share Subscription (assuming no change in the issued share capital of the Company), the aggregate nominal amount of the issued share capital of the Company will be HK\$94,380,980 comprising 9,438,098,000 Shares. Subject to the passing of the relevant ordinary resolution approving the Repurchase Mandate and no further Shares are issued prior to the SGM, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 943,809,800 Shares following completion of the Share Subscription.

## **REASONS FOR REPURCHASE**

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

## **FUNDING OF REPURCHASES**

Repurchase Mandate would be funded from the available cash flow and/or working capital facilities of the Company. The funds employed by the Company in connection with a repurchase of Shares would be those legally available for such purpose under the Company's Memorandum of Association and bye-laws of the Company and the laws of Bermuda.

There might be material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited financial statements for the year ended 31 March 2005) in the event that the mandate to repurchase Shares is exercised in full. However, the Directors do not propose to exercise the mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of the Company at the time of the relevant repurchases unless the Directors determined that such repurchases were, taking into account all relevant factors, in the best interests of the Company.

## **DISCLOSURE OF INTEREST**

To the best of the Directors' knowledge after having made all reasonable enquiries, none of the Directors nor their associates currently intend to sell any Share to the Company or its subsidiaries under the Repurchase Mandate if such Repurchase Mandate is approved by Shareholders.

No connected persons have notified the Company that they have a present intention to sell Shares to the Company, nor have they undertaken not to do so in the event that the Repurchase Mandate is approved by Shareholders.

#### **UNDERTAKING OF THE DIRECTORS**

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the Listing Rules, the laws of Bermuda and the Memorandum of Association and Bye-laws of the Company.

#### **TAKEOVERS CODE CONSEQUENCES**

If on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

Immediately after completion of the Share Subscription and exercise in full of the Option and the Convertible Notes, the Subscriber will hold 8,000,000,000 Shares representing approximately 59.5% of the then issued share capital of the Company. There will not be any consequences which may arise under the Takeovers Code even if the Directors exercise the Repurchase Mandate in full.

The Company will not repurchase Shares if that repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the Company's issued share capital.

#### **SHARE REPURCHASE MADE BY THE COMPANY**

The Company had not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.



## MARKET PRICE OF SHARES

The following table shows the highest and lowest prices at which the Shares of the Company have been traded on the Stock Exchange in each of the last twelve months:

	<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>
<b>2005</b>		
April	0.073	0.061
May	0.068	0.059
June	0.072	0.062
July	0.066	0.043
August	0.076	0.046
September	0.081	0.059
October	0.061	0.044
November	0.053	0.044
December	0.049	0.034
<b>2006</b>		
January	0.045	0.035
February	0.040	0.024
March	0.088	0.039

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group and the Subscriber.

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

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

**SHARE CAPITAL OF THE COMPANY****(a) Share Capital**

*Authorized capital:* *HK\$*

<u>8,000,000,000</u>	ordinary shares of HK\$0.01 each	<u>80,000,000</u>
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*Issued and fully paid or credited as fully paid:*

<u>5,438,098,000</u>	ordinary shares of HK\$0.01 each	<u>54,380,980</u>
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All existing issued Shares rank equally in all respects, including capital, dividends and voting rights. The Shares in issue are listed on the Stock Exchange. No Shares have been issued since 31 March 2005, being the end of the last financial year of the Company.

**(b) Share Option Scheme**

Pursuant to the Company's share option scheme (the "Scheme"), the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from Shareholders. The number of Shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the Company's issued share capital or with a value in excess of HK\$5 million, otherwise it must be approved by the Shareholders.

The following table sets out the details of the outstanding share options as at the Latest Practicable Date:

<b>Exercise Price</b>	<b>Exercise Period</b>	<b>Outstanding options as at the Latest Practicable Date</b>
HK\$0.1200	20.5.2004 – 21.6.2012	68,000,000
HK\$0.0620	18.8.2005 – 20.6.2012	54,920,000
HK\$0.0624	28.9.2005 – 20.6.2012	2,000,000
HK\$0.0664	6.4.2006 – 20.6.2012	5,000,000
HK\$0.0630	29.8.2006 – 20.6.2012	195,000,000
HK\$0.0278	17.2.2007 – 20.6.2012	40,000,000
		364,920,000

As at the Latest Practicable Date, save for the above, the Company did not have any other outstanding options, warrants or other securities convertible into Shares.

## DISCLOSURE OF INTERESTS

## A. Interests in the Company or its associated companies

*(a) Interests of Directors and chief executive*

As at the Latest Practicable Date, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

*(i) Long position in the Shares*

Name of Directors	Number of Shares held in the capacity of Held by			Total number of Shares held	Percentage of the issued share capital of the Company
	Beneficial owner	controlled corporation	Held by trust		
Chen Gang, Gordon	63,160,000	–	–	63,160,000	1.16%
Robert Fung Hing Piu	4,305,437	60,000,000	63,604,530	127,909,967	2.35%
Iain Ferguson Bruce	5,000,000	–	–	5,000,000	0.09%
Barry John Buttifant	1,000,000	–	–	1,000,000	0.02%

*(ii) Share options*

Name of Directors	Capacity	Number of options held	Number of underlying shares
Fan Di	Beneficial owner	82,000,000	82,000,000
Zheng Yingsheng	Beneficial owner	51,500,000	51,500,000
Zhou Li Yang	Beneficial owner	20,500,000	20,500,000
Wang Shizhen	Beneficial owner	7,000,000	7,000,000
Robert Fung Hing Piu	Beneficial owner	3,500,000	3,500,000
Iain Ferguson Bruce	Beneficial owner	3,500,000	3,500,000
Barry John Buttifant	Beneficial owner	3,500,000	3,500,000
Victor Yang	Beneficial owner	2,000,000	2,000,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provision of the SFO) and/or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules relating to securities transactions by the Directors.

**(b) *Substantial shareholders and other persons' interests in Shares and underlying Shares***

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

Name of Substantial Shareholders	Number of Shares held in the capacity of		Percentage of issued share capital of the Company
	Beneficial owner	Interest in corporation	
Farsight Holdings Limited	63,854,189	982,368,894	19.24%
DiChain Holdings Limited	982,368,894	–	18.07%

*Note:* Farsight Holdings Limited is interested in more than one-third of the voting shares of DiChain Holdings Limited and is thus deemed to be interested in the Shares held by DiChain Holdings Limited.

Save as disclosed above, the Directors and chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who as at the Latest Practicable Date had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**(c) *Interests of the Subscriber and parties acting in concert with it***

As at the Latest Practicable Date, the Subscriber, its directors and parties acting in concert with any of them had no other interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

*(d) Others*

As at the Latest Practicable Date,

- (i) none of the Directors or proposed Directors had any interest in any assets which have been, since 31 March 2005, the date in which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (ii) none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor Hercules, Kingston or any other advisers to the Company as specified in class (2) of the definition of “Associate” under the Takeovers Code had any interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.
- (iii) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of “Associate” under the Takeovers Code, or with the Subscriber or any party acting in concert with the Subscriber.
- (iv) no shareholdings in the Company were managed on a discretionary basis by fund manager connected with the Company nor did any such fund manager deal in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period commencing on the date six months prior to the date of the Announcement and up to the Latest Practicable Date.

**B. Dealings in securities of the Company***(a) Directors*

On 20 February 2006, DiChain Holdings Limited, a company owned as to 3.76% by Dr. Fan Di and 0.24% by Mr. Chen Gang, Gordon, disposed of 1,100,000,000 Shares, representing approximately 20.23% of the existing issued share capital of the Company, at a price of HK\$0.015 per Share to Smooth Develop Investments Limited and 333,330,000 Shares, representing approximately 6.13% of the existing issued share capital of the Company, at a price of HK\$0.015 per Share to Sunny State Investments Limited. Smooth Develop Investments Limited and Sunny State Investments Limited and their respective beneficial owners are independent third parties not connected with the Company, DiChain Holdings Limited or their respective connected persons.

Save for the above-mentioned, none of the Directors had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period commencing on the date six months prior to the date of the Announcement and up to the Latest Practicable Date (the “Relevant Period”).

*(b) The Subscriber and parties acting in concert with it*

During the Relevant Period, save for the entering into of the Subscription Agreements, none of the Subscriber, its directors nor any persons acting in concert with any of them had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

*(c) Others*

During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or of any of its subsidiaries, nor Hercules, Kingston or any other advisers to the Company as specified in class (2) of the definition of “Associate” under the Takeovers Code had dealt for value in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

As at the Latest Practicable Date, the Company and the Directors did not have any interest in the securities of the Subscriber and had no dealings in the securities of the Subscriber during the Relevant Period.

**C. Other arrangements**

- (a) As at the Latest Practicable Date, no persons had irrevocably committed themselves to vote for or against the resolutions to be proposed at the SGM to approve the Whitewash Waiver.
- (b) As at the Latest Practicable Date, no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Subscriber or any party acting in concert with it, and any other person.
- (c) As at the Latest Practicable Date, no agreements, arrangements or understandings (including any compensation arrangement) existed between (i) the Subscriber or any party acting in concert with it; and (ii) any Director, recent Director, Shareholder or recent Shareholder having any connection with or dependence upon the Whitewash Waiver.
- (d) As at the Latest Practicable Date, no Shareholders had any obligation or entitlement whereby he had or might have temporarily or permanently passed control over the exercise of the voting right in respect of his securities in the Company to a third party, either generally or on a case-by-case basis.
- (e) As at the Latest Practicable Date, no benefits had been given or would be given to any Director as compensation for loss of office or otherwise in connection with Whitewash Waiver.

- (f) There were no contracts or arrangements subsisting at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Group.
- (g) As at the Latest Practicable Date, save for the Subscription Agreements, there were no material contracts entered into by the Subscriber or any party acting in concert with it in which any Directors had a material personal interest.
- (h) As at the Latest Practicable Date, save for the Subscription Agreements, there were no other agreements or arrangements to which the Subscriber and his concert parties was a party which relate to circumstances in which it might or might not invoke or seek to invoke a condition to the Whitewash Waiver.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

As at the Latest Practicable Date, none of the Directors and his/her associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with business of the Group.

### **DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had service contract with any member of the Group which is not determinable by the Company within one year without payment of compensation, other than statutory compensation or has been entered into or amended within 6 months prior to the Latest Practicable Date.

### **MATERIAL LITIGATION**

As at the Latest Practicable Date, the Group was involved in the following material litigation:

In January 2006, a litigation was lodged against the Company and DiChain Logistic Services (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Company, by Guangdong Development Bank, Shenzhen Xiangmihu Branch, in relation to a default on payment of a loan of approximately RMB30 million granted by Guangdong Development Bank, Shenzhen Xiangmihu Branch to DiChain Logistic Services (Shenzhen) Co., Ltd.. The Company was a guarantor for the Loan. The court hearing scheduled to be held in the Shenzhen Intermediate People's Court on 7 March 2006 was adjourned to a date to be notified by the Shenzhen Intermediate People's Court as the Company has filed an appeal on the issue of the jurisdiction of the Shenzhen Intermediate People's Court over a Bermuda company. No provisions have been made in the accounts of the Company as the loan has been recorded in the accounts of DWS and accounted for in the consolidated accounts of the Company as at 30 September 2005 in the interim results of the Company.



The Directors expect that should the Company and DiChain Logistic Services (Shenzhen) Co., Ltd. lose the Litigation, the Group will have an immediate outflow of cash of RMB30 million. However, there are no impacts on the consolidated profit and loss account of the Group.

Save for the above-mentioned, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

### **QUALIFICATIONS AND CONSENTS OF EXPERTS**

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

<b>Name</b>	<b>Qualifications</b>
Kingston Corporate Finance Limited	Licensed corporation for Type 6 (advising on corporate finance) regulated activities under the SFO
CCIF CPA Limited (“CCIF”)	Certified Public Accountants
BMI Appraisals Limited (“BMI”)	Property valuers

Each of Kingston, BMI and CCIF has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respective appear.

None of Kingston, BMI and CCIF have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any direct or indirect interests in any assets which have been, since 31 March 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

**MARKET PRICE**

The table below shows the closing prices of the Shares on the Stock Exchange at the last trading day of each of the six calendar months immediately preceding the date of the Announcement, on the last trading date before publication of the Announcement and on the Latest Practicable Date:

<b>Date</b>	<b>Closing Price (HK\$)</b>
31 August 2005	0.064
30 September 2005	0.060
28 October 2005	0.047
29 November 2005	0.046
30 December 2005	0.042
27 January 2006	0.038
20 February 2006 (being the last trading day before publication of the Announcement)	0.031
Latest Practicable Date	0.064

The highest and lowest closing prices for the Shares recorded on the Stock Exchange during the period between 23 September 2005 (being the date of six months prior to the date of the Announcement) and the Latest Practicable Date were HK\$0.082 on 31 March 2006 and HK\$0.025 on 16 February 2006 respectively.

**MATERIAL CONTRACTS**

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

- (a) the disposal agreements each dated 19 August 2004 entered into between DWS and each of Mr. Ying Hua Dong (“Mr. Ying”) and 10 other PRC residents who are the management of SEG Scientific in relation to the disposal of the 21,000,000 shares in SEG Scientific at a total consideration of RMB28.35 million (equivalent to about HK\$26.75 million) or RMB1.35 (equivalent to about HK\$1.27) per share;
- (b) the transfer agreements dated 19 August 2004 entered into between DWS, DiChain Systems (Shenzhen) Company Limited as the guarantor and each of SEG and Mr. Ying in relation to the disposal of 8,317,500 shares and 2,242,500 shares in SEG Scientific to SEG and Mr. Ying at a total consideration of about RMB13.9 million (equivalent to about HK\$13.2 million);
- (c) the investment agreement dated 13 November 2004 entered into between DWS and Messrs. Wan Gui Ping, Liu Xiao Hong, Tu Zhao Lu, Chen Ke Hai and Zhu Mei Qi, which sets out the general structure of the acquisition plan which includes, the acquisition of 24% equity interest in Guangzhou Meiri Logistics Company Limited (“Guangzhou Meiri”) by DWS, the contribution of investment in the amount of

RMB4.5 million (equivalent to approximately HK\$4.25 million) in Guangzhou Meiri by DWS, the acquisition of 60% equity interest in Jiangxi Dichain Logistics Company Limited (“Jiangxi Dichain”) by DWS and the establishment of the joint venture company between Guangzhou Meiri and Jiangxi Dichain.

- (d) the acquisition agreement dated 13 November 2004 entered into between DWS as the purchaser and Messrs. Wan Gui Ping, Liu Xiao Hong, Tu Zhao Lu, Chen Ke Hai and Zhu Mei Qi as the vendors regarding the acquisition of 24% equity interest in Guangzhou Meiri by DWS at a total consideration of RMB2.7 million.
- (e) the acquisition agreement dated 13 November 2004 entered into between DWS as the purchaser and Messrs. Wan Gui Ping, Liu Xiao Hong, Tu Zhao Lu, Chen Ke Hai and Zhu Mei Qi as the vendors regarding the acquisition of 60% equity interest in Jiangxi Dichain by DWS at a total consideration of RMB0.3 million.
- (f) the joint venture agreement dated 15 December 2004 entered into between Guangzhou Meiri and Jiangxi Dichain Logistics Company Limited regarding the formation of the joint venture company, namely Inner Mongolia Dichain Logistics Company Limited;
- (g) the Subscription Agreements.

**MISCELLANEOUS**

- (a) The company secretary and the qualified accountant of the Company is Mr. Yu Wai Kit. Mr. Yu is a member of Australian Society of Certified Practising Accountants and a member of Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The principal place of business of the Company is situate at Unit 3611, 36th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (d) The address of the Subscriber is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (e) The address of Hercules is 1503 Ruttonjee House, 11 Duddell Street, Central, Hong Kong.
- (f) The English text of this circular and the accompany form of proxy shall prevail over their respective Chinese texts for the purpose of interpretation.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, the Company's website at [www.dichainasia.com](http://www.dichainasia.com) and the SFC's website at [www.sfc.hk](http://www.sfc.hk) from the date of this circular up to and including 22 May 2006, being the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2005;
- (c) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 34 to 61 of this circular;
- (d) the letter from CCIF in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on pages 115 to 116 of this circular;
- (e) the valuation certificate and valuation report, the text of which is set out on pages 117 to 123 of this circular;
- (f) the material contracts referred to in the section headed "MATERIAL CONTRACTS" in this Appendix;
- (g) the letters of consents from CCIF, BMI and Kingston referred to in the section headed "QUALIFICATIONS AND CONSENTS OF EXPERTS" in this Appendix;
- (h) the circular dated 15 December 2005 in relation to proposed full issue of convertible note and grant of option and special mandate;
- (i) the circular dated 29 April 2005 in relation to disclosable transaction of settlement of debt owed by China Technology Global Corporation to the Company by the issue of shares of China Technology Global Corporation; and
- (j) the circular dated 4 March 2005 in relation to major transactions of acquisition of 60% equity interest in Guangzhou Meiri Logistics Company Limited by transfer and capital investment and acquisition of 60% equity interest in Jiangxi Dichain Logistics Company Limited.

A. Subject as hereinafter provided, the Conversion Price of the Convertible Notes shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (1) to (7) inclusive of this Condition A, it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

1. If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the same day as the date on which the consolidation or sub-division becomes effective.

2. If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{C + D}$$

where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the Shares issued in such capitalization.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

3. If and whenever the Company shall make any Capital Distribution (as defined in Condition B) (except where, and to the extent that, the Conversion Price falls to be adjusted under sub-paragraph (2) above) to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price per share (as defined in Condition B) on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding the date of the Capital Distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by an approved merchant bank of the portion of the Capital Distribution or of such rights which is attributable to one Share,

Provided that:

- a. if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if F meant the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights; and
- b. the provisions of this sub-paragraph (3) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the Capital Distribution or grant.

4. If and whenever the Company shall after the date hereof offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered for subscription;

I = the amount (if any) payable for the rights, options or warrants or other rights to subscribe for each new Share, plus the subscription price payable for each new Share; and

J = the greater of either the closing price per Share on the trading day immediately prior to such announcement or the Conversion Price in effect immediately prior to the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer.

5. (i) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below in this sub-paragraph 5) initially receivable for such securities is less than the greater of either the closing price per Share at the date of the announcement of the terms of issue of such securities or the Conversion Price in effect immediately prior to the date of the announcement of the terms of issue of such securities (for the purpose of this section (i), the “Applicable Price”), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the Total Effective Consideration receivable for the securities issued would purchase at the Applicable Price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such

securities, at the initial conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

- (ii) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (i) of this sub-paragraph (5) are modified so that the Total Effective Consideration (as defined below in this sub-paragraph (5)) per Share initially receivable for such securities shall be less than the greater of either the closing price per Share at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription or the Conversion Price in effect immediately prior to the date of announcement of the proposal to modify such rights of conversion or exchange or subscription (for the purpose of this section (ii), the “**Applicable Price**”), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by a fraction of which the numerator is the number of Shares in issue immediately before the date of such modification plus the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion price would purchase at the Applicable Price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price, such adjustment shall take effect as at the date upon which such modification takes effect. A right of conversion or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalization issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (5), the “**Total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.



6. If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than the greater of either the closing price per Share at the date of the announcement of the terms of such issue or the Conversion Price in effect immediately prior to the date of the announcement of the terms of such issue (for the purpose of this sub-paragraph (6), the “Applicable Price”), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at the Applicable Price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.
7. If and whenever the Company shall issue Shares for the acquisition of assets at a Total Effective Consideration per Share (as defined below in this sub-paragraph (7)) which is less than the greater of either the closing price per Share at the date of the announcement of the terms of such issue or the Conversion Price in effect immediately prior to the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by an approved merchant bank, such adjustment to become effective on the date of issue. For the purposes of this sub-paragraph (7), “Total Effective Consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “Total Effective Consideration per Share” shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.
8. If the Company and the Noteholder determine that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances (whether or not referred to in sub-paragraphs (1) to (7) above) (even if the relevant event or circumstance is specifically excluded in the Conditions from the operation of sub-paragraphs (1) to (7) above), or that an adjustment should not be made (even if the relevant or circumstance is specifically provided for in sub-paragraphs (1) to (7) above), or that the effective date for the relevant adjustment should be a date other than that mentioned in sub-paragraphs (1) to (7) above, the Company or the Noteholder may, at the expense of the Company and the Noteholder, request the approved merchant bank, acting as expert, to determine as soon as practicable (i) what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereto and is appropriate to give the result which the approved merchant bank considers in good faith to reflect the intentions of the provisions of this Condition; and (ii) the date on which such adjustment should take effect; and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph 8 if the approved merchant bank is so requested to make such a determination.

B. For the purposes of this Condition:

“**announcement**” shall include the release of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Stock Exchange and “**date of announcement**” shall mean the date on which the announcement is first so released, delivered or transmitted;

“**approved merchant bank**” means a merchant bank of repute in Hong Kong selected by and approved by the Noteholder for the purpose of providing a specific opinion or calculation or determination hereunder;

“**Capital Distribution**” shall (without prejudice to the generality of that phrase) include distributions in cash or specie. Any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution;

“**issue**” shall include allot;

“**market price**” means the average of the closing price per Share for each of the last twenty (20) Stock Exchange trading days on which dealings in the Shares on the Stock Exchange took place ending on such trading day last preceding the day on or as of which the market price is to be ascertained;

“**reserves**” shall include unappropriated profits; and

“**rights**” shall include rights in whatsoever form issued.

C. The provisions of sub-paragraphs (2) to (6) of Condition A shall not apply to:

- a. an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including any conversion of the Conversion Notes) to acquire Shares (except a rights issue) provided that an adjustment (if required) has been made under this Condition in respect of the issue of such securities or granting of such rights (as the case may be);
- b. an issue of fully-paid Shares by way of capitalization of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into, or rights to acquire, Shares; or
- c. an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value of such Shares is not more than 110 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash, for which purpose the “market value” of a Share shall mean the average of the closing prices

such Stock Exchange dealing days on which dealings in the Shares took place (being not less than twenty (20) such days) as are selected by the directors of the Company in connection with determining the basis of allotment in respect of the relevant scrip dividend and which fall within the period of one month ending on the last day on which holders of Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash.

- D. Any adjustment to the Conversion Price shall be made to the nearest one-tenth of a cent so that any amount under 0.05 cent shall be rounded down and any amount of 0.05 cent or more shall be rounded up.
- E. Notwithstanding anything contained herein, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this Condition would be less than one-tenth of a cent and any adjustment that would otherwise be required then to be made shall not be carried forward.
- F. If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint an approved merchant bank to consider whether any adjustment to the Conversion Price is appropriate (and if such approved merchant bank shall certify that any such adjustment is appropriate, the Conversion Price shall be adjusted accordingly and the sections of D, E, G to K and K shall apply).
- G. Whenever the Conversion Price is adjusted as herein provided the Company shall as soon as possible but not later than two (2) Business Days after the relevant adjustment has been determined give notice of the same to the Noteholder (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof).
- H. Notwithstanding any other provision of this Condition, no adjustment shall be made which would (but for this Condition H) result in the Conversion Price being reduced so that on conversion, Shares would fall to be issued at a discount to their nominal value, and in such case an adjustment shall be made to the effect that the Conversion Price will be reduced to the nominal value of the Shares.
- I. Any adjustment to the Conversion Price shall not involve an increase in the Conversion Price (except upon any consolidation of the Shares pursuant to Condition A(1)).
- J. Every adjustment to the Conversion Price shall be certified in writing by an approved merchant bank.

- K. The Company shall make available for inspection at its principal place of business in Hong Kong at all times after the effective date of the adjustment in the Conversion Price and so long as this Note remains outstanding, a signed copy of the certificate of the approved merchant bank and a certificate signed by a director of the Company setting forth brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to the adjustment, the adjusted Conversion Price and the effective date thereof and shall, on request, send a copy thereof to the Noteholder.

A. Subject as hereinafter provided, the Exercise Price of the Option shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (1) to (7) inclusive of this Condition A, it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

1. If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Exercise Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the same day as the date on which the consolidation or sub-division becomes effective.

2. If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund), the Exercise Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{C + D}$$

where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the Shares issued in such capitalization.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

3. If and whenever the Company shall make any Capital Distribution (as defined in Condition B) (except where, and to the extent that, the Exercise Price falls to be adjusted under sub-paragraph (2) above) to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Exercise Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price per share (as defined in Condition B) on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) next preceding the date of the Capital Distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by an approved merchant bank of the portion of the Capital Distribution or of such rights which is attributable to one Share,

Provided that:

- a. if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if F meant the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights; and
- b. the provisions of this sub-paragraph (3) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the Capital Distribution or grant.

4. If and whenever the Company shall after the date hereof offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares, the Exercise Price shall be adjusted by multiplying the Exercise Price in force immediately before the date of the announcement of such offer by the following fraction:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered for subscription;

I = the amount (if any) payable for the rights, options or warrants or other rights to subscribe for each new Share, plus the subscription price payable for each new Share; and

J = the greater of either the closing price per Share on the trading day immediately prior to such announcement or the Exercise Price in effect immediately prior to the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer.

5. (i) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration per Share (as defined below in this sub-paragraph 5) initially receivable for such securities is less than the greater of either the closing price per Share at the date of the announcement of the terms of issue of such securities or the Exercise Price in effect immediately prior to the date of the announcement of the terms of issue of such securities (for the purpose of this section (i), the “Applicable Price”), the Exercise Price shall be adjusted by multiplying the Exercise Price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the Total Effective Consideration receivable for the securities issued would purchase at the Applicable Price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities, at the initial

conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

- (ii) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (i) of this sub-paragraph (5) are modified so that the Total Effective Consideration (as defined below in this sub-paragraph (5)) per Share initially receivable for such securities shall be less than the greater of either the closing price per Share at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription or the Exercise Price in effect immediately prior to the date of announcement of the proposal to modify such rights of conversion or exchange or subscription (for the purpose of this section (ii), the “**Applicable Price**”), the Exercise Price shall be adjusted by multiplying the Exercise Price in force immediately prior to such modification by a fraction of which the numerator is the number of Shares in issue immediately before the date of such modification plus the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified Exercise price would purchase at the Applicable Price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price, such adjustment shall take effect as at the date upon which such modification takes effect. A right of conversion or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalization issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (5), the “**Total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

6. If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than the greater of either the closing price per Share at the date of the announcement of the terms of such issue or the Exercise Price in effect



- immediately prior to the date of the announcement of the terms of such issue (for the purpose of this sub-paragraph (6), the “Applicable Price”), the Exercise Price shall be adjusted by multiplying the Exercise Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at the Applicable Price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.
7. If and whenever the Company shall issue Shares for the acquisition of assets at a Total Effective Consideration per Share (as defined below in this sub-paragraph (7)) which is less than the greater of either the closing price per Share at the date of the announcement of the terms of such issue or the Exercise Price in effect immediately prior to the date of the announcement of the terms of such issue, the Exercise Price shall be adjusted in such manner as may be determined by an approved merchant bank, such adjustment to become effective on the date of issue. For the purposes of this sub-paragraph (7), “Total Effective Consideration” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “Total Effective Consideration per Share” shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.
  8. If the Company and the Noteholder determine that an adjustment should be made to the Exercise Price as a result of one or more events or circumstances (whether or not referred to in sub-paragraphs (1) to (7) above) (even if the relevant event or circumstance is specifically excluded in the Conditions from the operation of sub-paragraphs (1) to (7) above), or that an adjustment should not be made (even if the relevant or circumstance is specifically provided for in sub-paragraphs (1) to (7) above), or that the effective date for the relevant adjustment should be a date other than that mentioned in sub-paragraphs (1) to (7) above, the Company or the Noteholder may, at the expense of the Company and the Noteholder, request the approved merchant bank, acting as expert, to determine as soon as practicable (i) what adjustment (if any) to the Exercise Price is fair and reasonable to take account thereto and is appropriate to give the result which the approved merchant bank considers in good faith to reflect the intentions of the provisions of this Condition; and (ii) the date on which such adjustment should take effect; and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph 8 if the approved merchant bank is so requested to make such a determination.

B. For the purposes of this Condition:

“**announcement**” shall include the release of an announcement to the press or the delivery or transmission by telephone, telex or otherwise of an announcement to the Stock Exchange and “date of announcement” shall mean the date on which the announcement is first so released, delivered or transmitted;

“**approved merchant bank**” means a merchant bank of repute in Hong Kong selected by and approved by the Noteholder for the purpose of providing a specific opinion or calculation or determination hereunder;

“**Capital Distribution**” shall (without prejudice to the generality of that phrase) include distributions in cash or specie. Any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution;

“**issue**” shall include allot;

“**market price**” means the average of the closing price per Share for each of the last twenty (20) Stock Exchange trading days on which dealings in the Shares on the Stock Exchange took place ending on such trading day last preceding the day on or as of which the market price is to be ascertained;

“**reserves**” shall include unappropriated profits; and

“**rights**” shall include rights in whatsoever form issued.

C. The provisions of sub-paragraphs (2) to (6) of Condition A shall not apply to:

- a. an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including exercise of the Option) to acquire Shares (except a rights issue) provided that an adjustment (if required) has been made under this Condition in respect of the issue of such securities or granting of such rights (as the case may be);
- b. an issue of fully-paid Shares by way of capitalization of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into, or rights to acquire, Shares; or
- c. an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value of such Shares is not more than 110 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash, for which purpose the “market value” of a Share shall mean the average of the closing prices

such Stock Exchange dealing days on which dealings in the Shares took place (being not less than twenty (20) such days) as are selected by the directors of the Company in connection with determining the basis of allotment in respect of the relevant scrip dividend and which fall within the period of one month ending on the last day on which holders of Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash.

- D. Any adjustment to the Exercise Price shall be made to the nearest one-tenth of a cent so that any amount under 0.05 cent shall be rounded down and any amount of 0.05 cent or more shall be rounded up.
- E. Notwithstanding anything contained herein, no adjustment shall be made to the Exercise Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this Condition would be less than one-tenth of a cent and any adjustment that would otherwise be required then to be made shall not be carried forward.
- F. If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint an approved merchant bank to consider whether any adjustment to the Exercise Price is appropriate (and if such approved merchant bank shall certify that any such adjustment is appropriate, the Exercise Price shall be adjusted accordingly and the sections of D, E, G to K and K shall apply).
- G. Whenever the Exercise Price is adjusted as herein provided the Company shall as soon as possible but not later than two (2) Business Days after the relevant adjustment has been determined give notice of the same to the Noteholder (setting forth the event giving rise to the adjustment, the Exercise Price in effect prior to such adjustment, the adjusted Exercise Price and the effective date thereof).
- H. Notwithstanding any other provision of this Condition, no adjustment shall be made which would (but for this Condition H) result in the Exercise Price being reduced so that on conversion, Shares would fall to be issued at a discount to their nominal value, and in such case an adjustment shall be made to the effect that the Exercise Price will be reduced to the nominal value of the Shares.
- I. Any adjustment to the Exercise Price shall not involve an increase in the Exercise Price (except upon any consolidation of the Shares pursuant to Condition A(1)).
- J. Every adjustment to the Exercise Price shall be certified in writing by an approved merchant bank.

- K. The Company shall make available for inspection at its principal place of business in Hong Kong at all times after the effective date of the adjustment in the Exercise Price and so long as this Note remains outstanding, a signed copy of the certificate of the approved merchant bank and a certificate signed by a director of the Company setting forth brief particulars of the event giving rise to the adjustment, the Exercise Price in effect prior to the adjustment, the adjusted Exercise Price and the effective date thereof and shall, on request, send a copy thereof to the Noteholder.

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## NOTICE OF SPECIAL GENERAL MEETING

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### CHINA MERCHANTS DICHAIN (ASIA) LIMITED

### 招商迪辰(亞洲)有限公司\*

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 0632)**

**NOTICE IS HEREBY GIVEN** that a special general meeting of China Merchants DiChain (Asia) Limited (the “Company”) will be held at 10:00 a.m. on 22 May 2006 at Unit 3611, 36/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong or any adjournment thereof for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company.

#### ORDINARY RESOLUTIONS

1. “**THAT** the authorized share capital of the Company be hereby increased from HK\$80,000,000 comprising 8,000,000,000 ordinary shares of HK\$0.01 each (the “Shares”) to HK\$300,000,000 by the creation of an additional 22,000,000,000 new Shares.”
  
2. “**THAT** conditional upon the passing of Resolution No. 1 above and the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) approving the listing of, and granting permission to deal in the Subscription Shares (as defined below), the Conversion Shares (as defined below) and Option Shares (as defined below):
  - (a) the Conditional Agreement dated 22 February 2006 and Supplemental Agreement dated 20 March 2006 (collectively, the “Subscription Agreements”) entered into among the Company, Orient Day Developments Limited (the “Subscriber”) and DiChain Holdings Limited for:
    - (i) the subscription of 4,000,000,000 Shares (the “Subscription Shares”) at a subscription price of HK\$0.01 per Subscription Share;
    - (ii) the issue of convertible notes in the principal amount of HK\$30,000,000 to the Subscriber convertible into 3,000,000,000 Shares (the “Conversion Shares”) at the conversion price of HK\$0.01 per Conversion Share within 2 years from the date of issue of the convertible note; and
    - (iii) the grant of an option to the Subscriber at the consideration of HK\$10 in respect of a right to subscribe for not more than 1,000,000,000 Shares (the “Option Shares”) at the price of HK\$0.01 per Option Share within 2 years from the date of completion of the Subscription Agreements,

\* For identification purpose only

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## NOTICE OF SPECIAL GENERAL MEETING

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(information relating to the Subscription Agreements is set out in the circular of the Company dated 4 May 2006, and a copy of the Conditional Agreement and Supplemental Agreement have been produced to the meeting marked “A” and “B” respectively and signed by the chairman of this meeting for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, ratified and confirmed and any one directors of the Company (the “Directors”) be and is hereby authorized to make such changes or amendments to the Subscription Agreements and to execute any other documents in relation thereto as such director in his absolute discretion deems fit; and

- (b) any one of the Directors be and are hereby authorized to do all such further acts and things, take all steps and execute all such further documents which in his opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated in the Subscription Agreements and any other documents or matters incidental thereto and/or as contemplated therein.”
3. “**THAT** conditional upon the passing of Resolution No. 2 above, the application for Whitewash Waiver (as defined and described in the circular of the Company dated 4 May 2006) be and is hereby approved and that any Director be and is hereby authorized to do all things and acts and sign all documents which he considers desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Whitewash Waiver.”
4. “**THAT** conditional upon the Listing Committee of Stock Exchange approving the listing of, and granting permission to deal in the Consolidated Shares (as defined below) with effect from 4:00 p.m. on the business day in Hong Kong (other than a Saturday) on which this resolution is passed:
- (a) every 50 issued and unissued Shares of HK\$0.01 each be consolidated into 1 share of HK\$0.50 each (the “Consolidated Shares”);
  - (b) fractional Consolidated Shares be aggregated and if possible, sold for the benefits of the Company; and
  - (c) any Director be and are hereby authorized to do all things and acts and sign all documents which he considers desirable or expedient to implement and/or give effect to the above arrangements.”
5. “**THAT** conditional upon the passing of Resolutions No. 1 to 3 above:
- (a) subject to paragraph 5(c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to

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## NOTICE OF SPECIAL GENERAL MEETING

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make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

- (b) the approval in paragraph 5(a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Periods;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs 4(a) and (b) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares under any options granted under the share option scheme adopted by the Company; (iii) an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company; (iv) an issue of shares in lieu of the whole or part of a dividend pursuant to any scrip dividend scheme or similar arrangement in accordance with the bye-laws of the Company; and (v) any adjustment, after the date of grant or issue of any options, rights to subscribe or other securities referred to in (ii) and (iii) above, in the price at which shares in the Company shall be subscribed, and/or in the number of Shares in the Company which shall be subscribed, on exercise of relevant rights under such options, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, rights to subscribe or other securities, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the time of passing this resolution, which includes the Subscription Shares; and
- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum of Association and Bye-laws of the Company or any applicable laws of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

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## NOTICE OF SPECIAL GENERAL MEETING

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“Right Issue” means an offer of Shares open for a period fixed by the Directors to holders of the Shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusive or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchange).”

6. “**THAT** conditional upon the passing of Resolutions No. 1 to 3 above:
- (a) subject to paragraph 6(c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase issued shares in the capital of the Company on the Stock Exchange or on any other stock exchange on which the Shares may be listed and recognized by The Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws and/or the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange from time to time be and is hereby generally and unconditionally approved;
  - (b) the approval in paragraph 6(a) shall be in addition to any other authorization given to the Directors and shall authorize the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its Shares at a price determined by the Directors;
  - (c) the aggregate nominal amount of share capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph 6(a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the time of passing this resolution, which includes the Subscription Shares; and
  - (d) for the purpose of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum of Association and Bye-laws of the Company or any applicable laws of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting.”



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## NOTICE OF SPECIAL GENERAL MEETING

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7. “**THAT** conditional upon the passing of the Resolutions No. 1 to 3, 5 and 6 above, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the Resolution 6 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the Resolution 4 provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution, which includes the Subscription Shares.”

By order of the Board  
**China Merchants DiChain (Asia) Limited**  
**Zhou Li Yang**  
*Managing Director*

Hong Kong, 4 May 2006

*Notes:*

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote on his behalf. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend in his stead.
2. The enclosed form of proxy and (if required by the Directors) the power of attorney or other authority (if any), under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queens' Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Delivery of any instrument of proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument of proxy shall be deemed to be revoked.
3. In the case of joint holders of Shares, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.
4. The enclosed form of proxy must be signed by the appointer or by his attorney authorized in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorized to sign the same.