THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Heng Fung Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

This circular is addressed to the shareholders of Heng Fung Holdings Limited for the purpose of providing information in connection with the extraordinary general meeting. It is not an offer of, nor is it calculated to invite offers or applications for, securities of the Company.

HENG FUNG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

SETTLEMENT OF LITIGATION, PROPOSED ISSUE OF SUBSCRIPTION SHARES WITH BONUS SHARES AND BONUS WARRANTS (CONNECTED TRANSACTION), APPLICATION FOR WHITEWASH WAIVER, AMENDMENT OF ARTICLES AND GENERAL MANDATE TO ISSUE SECURITIES AND REPURCHASE SHARES

Financial adviser to the Company

Somerley Limited

Financial adviser to the Independent Board Committee

Tai Fook Capital Limited

A letter from Tai Fook Capital Limited setting out its advice and recommendations to the Independent Board Committee is set out on pages 21 to 41 of this circular.

A notice convening an extraordinary general meeting of Heng Fung Holdings Limited to be held at Park Lane IV, 27th Floor, The Park Lane, 310 Gloucester Road, Hong Kong on Wednesday, 31st July, 2002 at 9:30 a.m. is set out on pages 138 to 142 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office at 2601 Island Place Tower, 510 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.

8th July, 2002

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DEFINITIONS

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

"Announcement"	the announcement of the Company dated 27th May, 2002 in relation to the Compromise Agreement and the Subscription Agreement
"Articles"	the articles of association of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	board of Directors
"Bonus Share(s)"	bonus Shares to be issued with the Subscription Shares and/or on the exercise of the Bonus Warrants, as the case may be
"Bonus Warrant(s)"	bonus warrant(s) of the Company to be issued with the Subscription Shares on the basis of one Bonus Warrant for every Subscription Share issued and entitling holders thereof to subscribe for one new Share at the initial subscription price of HK$0.25 per Share and each entitling holders to be issued one Bonus Share for every Share subscribed
"BVI"	British Virgin Islands
"Colliers"	Colliers International Realty Advisors Inc., an independent professional property valuer
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Heng Fung Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
"Completion"	completion of the Subscription Agreement which is expected to take place on or before the fifth business day following the satisfaction of the conditions or such other date as may be agreed between the parties to the Subscription Agreement
"Compromise Agreement"	the settlement agreement entered into on 24th April, 2002 between the Group and MBf Asia relating to the settlement of the litigation in relation to the Credit Card Business as amended by an agreement dated 3rd June, 2002 under which the parties agreed to use best efforts towards full completion of the settlement agreement on or before 3rd July, 2002

"Controlling Shareholders"	the Subscriber together with parties acting in concert with it, including Mr. Chan and Mrs. Chan, companies controlled by them, Ms. Chan Sook Jin, Mary-ann, Mr. Chan Tong Wan, other family members (being Mr. Chan Tung Moe (son of Mr. Chan and Mrs. Chan) and Madam Wong Lai Wan (mother of Mr. Chan)), and Mr. Fong Kwok Jen, holding together an aggregate of 417,423,003 Shares as at the Latest Practicable Date
"Credit Card Business"	the business of the Group engaged in the issue of credit cards currently conducted by Online Credit Card Limited, a subsidiary of the Company
"Directors"	directors of the Company
"EGM"	an extraordinary general meeting of the Company to be held at Park Lane IV, 27th Floor, The Park Lane, 310 Gloucester Road, Hong Kong on Wednesday, 31st July, 2002 at 9:30 a.m. to consider and, if thought fit, approve, among other things, the Subscription Agreement, the Whitewash Waiver and the amendment of the Articles
"Executive"	the executive director of the Corporate Finance Division of the SFC or any delegate of the executive director
"Group"	the Company and its subsidiaries
"Hai Xia"	Hai Xia Holdings Limited, a company incorporated in Bermuda with limited liability and the ordinary shares of which are listed on the Stock Exchange
"Hai Xia Finance"	Hai Xia Finance Holdings Limited, a company incorporated in the BVI
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HXFL"	Hai Xia Finance Limited, a company incorporated in Hong Kong with limited liability and a beneficially wholly-owned subsidiary of Hai Xia
"Independent Board Committee"	an independent committee of the Board comprising Messrs. Lee Ka Leung, Daniel, Wong Dor Luk, Peter and Ha Kee Choy formed for the purpose of advising the Independent Shareholders regarding the Subscription Agreement and the Whitewash Waiver

"Independent Shareholders"	Shareholders other than the Controlling Shareholders and those Shareholders who are involved in, or interested in, the Subscription Agreement
"Johnston, Ross & Cheng"	Johnston, Ross & Cheng Ltd., an independent professional property valuer
"Latest Practicable Date"	4th July, 2002, being the latest practicable date for ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MBf Asia"	MBf Asia Capital Corporation Holdings Limited, a company incorporated in Hong Kong and the vendor of the Credit Card Business
"Mr. Chan"	Mr. Chan Heng Fai, the Chairman and Managing Director of the Company and the spouse of Mrs. Chan
"Mrs. Chan"	Mrs. Chan Yoke Keow, an Executive Director of the Company and the spouse of Mr. Chan
"New Issue Mandate"	a general and unconditional mandate to be granted to the Directors to allot, issue and otherwise deal with new Shares and other securities with an aggregate nominal amount not exceeding 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following Completion
"OrangeTee"	OrangeTee.com Pte Ltd., an independent professional property valuer
"PRC"	the People's Republic of China
"Relevant Period"	a period commencing six months preceding 27th May, 2002 (being the date of the Announcement) and up to the Latest Practicable Date
"Repurchase Mandate"	a general and unconditional mandate to be granted to the Directors to exercise all the powers of the Company to repurchase Shares with an aggregate nominal amount not exceeding 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following Completion
"RM"	Malaysian Ringgit, the lawful currency of Malaysia
"Sallmanns"	Sallmanns (Far East) Limited, an independent professional property valuer

"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Securities Ordinance"	Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
"SFC"	Securities and Futures Commission
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	share(s) of HK$0.25 each in the capital of the Company
"Somerley"	Somerley Limited, an investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Prime Star Group Co., Ltd., a company incorporated in the BVI with limited liability and beneficially wholly-owned by Mrs. Chan
"Subscription Agreement"	an agreement entered into between the Company and the Subscriber dated 27th May, 2002 in relation to, among others, the subscription of the Subscription Shares by the Subscriber and the issue of the Bonus Shares and Bonus Warrants
"Subscription Share(s)"	80,000,000 new Share(s) to be allotted and issued upon Completion
"Tai Fook Capital"	Tai Fook Capital Limited, a registered investment adviser and the independent financial adviser to the Independent Board Committee
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"U.S."	the United States of America
"Valuers"	Sallmanns, Johnston, Ross & Cheng, OrangeTee and Colliers
"Whitewash Waiver"	a waiver from the obligation of the Subscriber to make a mandatory general offer under the Takeovers Code pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code to be sought from the Executive, which may otherwise arise as a result of Completion, or the full exercise of the Bonus Warrants

HENG FUNG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

Executive Directors:
Chan Heng Fai *(Chairman and Managing Director)*
Chan Yoke Keow
Chan Sook Jin, Mary-ann

Non-executive Directors:
Ha Kee Choy
Fong Kwok Jen
Chan Tong Wan

Independent non-executive Directors:
Lee Ka Leung, Daniel
Wong Dor Luk, Peter

Registered and principal office:
2601 Island Place Tower
510 King's Road
North Point
Hong Kong

8th July, 2002

To the Shareholders

Dear Sir or Madam,

**SETTLEMENT OF LITIGATION,
PROPOSED ISSUE OF SUBSCRIPTION SHARES
WITH BONUS SHARES AND BONUS WARRANTS
(CONNECTED TRANSACTION),
APPLICATION FOR WHITEWASH WAIVER,
AMENDMENT OF ARTICLES AND
GENERAL MANDATE TO ISSUE SECURITIES AND REPURCHASE SHARES**

INTRODUCTION

The Directors announced on 27th May, 2002 that the Company entered into (i) the Compromise Agreement for the settlement of all litigation between the Group and MBf Asia relating to the purchase by the Group of the Credit Card Business; and (ii) the Subscription Agreement pursuant to which the Company will issue to the Subscriber the Subscription Shares and the Bonus Shares and the Bonus Warrants (which carry additional Bonus Shares).

When aggregated with the present holding of the Controlling Shareholders of approximately 417.4 million Shares (representing 32.91% of existing Shares), the Controlling Shareholders will immediately after the Completion hold approximately 637.4 million Shares, representing approximately 42.83% of the enlarged issued share capital of the Company and, upon exercise in full of the Bonus Warrants, the Controlling Shareholders will hold approximately 797.4 million Shares, representing approximately 48.38% of the enlarged issued share capital of the Company.

As a result, the Controlling Shareholders would be obliged under Rule 26 of the Takeovers Code to make a mandatory general offer for all the Shares not already owned or agreed to be subscribed for by them upon Completion or full exercise of the Bonus Warrants. The Controlling Shareholders have therefore applied to the Executive for the grant of the Whitewash Waiver. The grant of the Whitewash Waiver is conditional on the approval of the Independent Shareholders at a general meeting with the relevant resolution taken on a poll.

As the Subscriber is a company controlled by Mrs. Chan, an executive Director, the Subscription Agreement constitutes a connected transaction for the Company under the Listing Rules and, as stated above, is subject to the approval of the Independent Shareholders at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders in this regard. Mr. Chan and Mrs. Chan have interests in the Subscription Agreement. Mr. Chan Tong Wan and Ms. Chan Sook Jin, Mary-ann are the son and daughter of Mr. Chan and Mrs. Chan. Mr. Fong Kwok Jen is also a legal adviser to Mr. Chan and Mrs. Chan since 1990 on personal investments of Mr. Chan and Mrs. Chan in various transactions in relation to their shareholdings in corporations where they have substantial shareholding or effective control. Accordingly, each of the aforementioned Directors are deemed to be parties acting in concert with the Controlling Shareholders. Accordingly, none of the above Directors are considered to be independent to participate in the Independent Board Committee. Mr. Lee Ka Leung, Daniel, Mr. Wong Dor Luk, Peter and Mr. Ha Kee Choy have been invited to constitute the Independent Board Committee to consider the Subscription Agreement and the Whitewash Waiver. Tai Fook Capital has been appointed as the independent financial adviser to advise the Independent Board Committee.

The purpose of this circular is to provide you with further information regarding, among other things, the Subscription Agreement, the Whitewash Waiver and financial information on the Group, and to set out the recommendation of the Independent Board Committee to the Independent Shareholders as regards the Subscription Agreement and the Whitewash Waiver, based on the advice of Tai Fook Capital, and to give you notice of the EGM convened for the purpose of considering, and if thought fit, approving, among other matters, the Subscription Agreement, the Whitewash Waiver and the amendments to the Articles.

Resolutions will also be proposed at the EGM to seek Shareholders' approval for the granting of the New Issue Mandate, the granting of the Repurchase Mandate and the granting of an extension of the New Issue Mandate. The circular also contains an explanatory statement, given in compliance with the Listing Rules, which contains all the information reasonably necessary for Shareholders to make an informed decision as to whether to vote for or against the resolution to approve the Repurchase Mandate.

THE COMPROMISE AGREEMENT

Parties to the Compromise Agreement

(i) the Company and two subsidiaries of the Company (namely Online Credit Limited and Online Credit Card Limited); and

(ii) MBf Asia, which is independent of, and not acting in concert with, the Company or its associates or directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates. MBf Asia is beneficially wholly-owned by MBf Holdings Berhad, a company incorporated in Malaysia and listed on the Kuala Lumpur Stock Exchange.

Background to the Compromise Agreement

The Group entered into an agreement ("Purchase Agreement") dated 19th February, 2000 with MBf Asia to purchase Online Credit Card Limited ("OCCL", formerly known as MBf Card International Limited) and Online Discount Card Limited ("ODCL", formerly known as MBf Discount Card (HK) Limited). Pursuant to the Purchase Agreement, the consideration for the purchase of the equity interests together with benefits of the shareholders loan to OCCL aggregated to approximately HK$45.6 million, which was payable as to HK$17.5 million as initial instalment with the remainder of HK$28.1 million upon completion. The operations of OCCL constitute substantially all of the Credit Card Business. The operations of ODCL have since reduced in size significantly.

Pursuant to the Purchase Agreement, the Group is entitled to deduct any liabilities of MBf Asia under the warranties or arising from any other breaches or liability of MBf Asia under the Purchase Agreement. MBf Asia has warranted and represented to the Group that there are no claims or actions pending or threatened against OCCL or ODCL. In addition, the Group and OCCL entered into a deed of indemnity dated 28th April, 2000, pursuant to which the Group is entitled to deduct from the amount payable by it to MBf Asia in respect of all claims or damages arising out of or in connection with any claims which may be brought by Pricerite Group Limited and Pricerite Stores Limited (collectively "Pricerite") against OCCL arising out of the agreements entered into between OCCL and Pricerite Group Limited dated 9th August, 1986 and between OCCL and Pricerite Stores Limited dated 19th July, 1999 (the "Pricerite Agreements") and any depletion or deduction in value of the assets of OCCL in consequence of such claims.

Pricerite commenced an action against OCCL on 28th March, 2000 ("Pricerite Litigation") claiming that OCCL has, among others, divulged confidential information of Pricerite in breach of the Pricerite Agreements and demanded unspecified amounts in damages from OCCL. As a consequence of the pending Pricerite Litigation, the Group has not paid the balance of the purchase money (in the amount of approximately HK$28.1 million) under the Purchase Agreement to MBf Asia. MBf Asia commenced an action against the Group on 8th November, 2000 claiming the balance payment.

Subject matter of the Compromise Agreement

The Compromise Agreement sets out the terms whereby the parties agree to settle a net amount of HK$23,100,000 due by the Group to MBf Asia in respect of the Group's purchase from MBf Asia of the Credit Card Business.

Principal Terms

(i) Payment by the Group of a total of HK$8.5 million in cash, of which HK$7.1 million is payable on the settlement date, HK$700,000 six months later and HK$700,000 twelve months later.

(ii) Transfer by the Group to MBf Asia of shares representing a 18% interest in the holding company of the Credit Card Business, with a deemed value between the parties of HK$14,600,000 which is arrived at based on arm's length negotiations between the parties to the Compromise Agreement with reference to the net tangible asset value of OCCL.

On the basis of the 18% attributable interest in the unaudited net asset value of OCCL as at 31st May, 2002 of HK$7.15 million, the deemed value of the shares of OCCL under the Compromise Agreement of HK$14.6 million represents a premium of approximately HK$7.45 million. The parties to the Compromise Agreement have agreed that, within seven days of the settlement date, they shall cancel all litigation. In particular High Court Action HCCL 93/2000 in relation to the dispute between the Group and MBf Asia arising from the acquisition of OCCL and ODCL by the Group will be discontinued with each party bearing its own costs. The net amount of HK$23.1 million represents the outstanding balance of HK$28.1 million consideration for the acquisition of OCCL and ODCL due by the Group, being offset by HK$5 million indemnity payable by MBf Asia to the Group relating to the acquisition.

The parties to the Compromise Agreement entered into a supplemental agreement on 3rd June, 2002 and they agreed to use their best efforts towards completion of the Compromise Agreement on or before 3rd July, 2002. The parties to the Compromise Agreement are negotiating further extension of the deadline for its completion. In the event that completion of the Compromise Agreement cannot be extended, the Company intends to draw on the existing working capital of the Group as a temporary measure to facilitate completion of the Compromise Agreement. In which case, the Group will seek to reallocate such amount from the proceeds from the Subscription Agreement to reinstate the working capital once Completion takes place.

The settlement of the litigation with MBf Asia under the Compromise Agreement provides a number of benefits to the Group as well as the Credit Card Business. Compared to the amount of approximately HK$38.7 million claimed by MBf Asia, the settlement represents a substantial savings of HK$15.6 million. Of the settlement amount, HK$14.6 million will be satisfied by the transfer of an equivalent of 18% interest in the Credit Card Business to MBf Asia, which will not draw on the financial resources of the Group. Therefore, the entering into of the Compromise Agreement would save cash outflow amounting to approximately HK$30.2 million. In addition, engaging in the settlement will substantially reduce the legal costs of both parties that would be incurred if the litigation proceeds.

MBf Asia is part of a conglomerate operating principally in Malaysia and is one of the largest credit card issuers in Malaysia. By introducing MBf Asia as a strategic shareholder, it is expected that the Credit Card Business will benefit in terms of utilizing the knowledge and expertise of MBf Asia in the credit card industry, obtaining information technology support from MBf Asia and assistance from MBf Asia towards OCCL in seeking recognition with VISA International as one of its licensed credit card issuers.

THE SUBSCRIPTION AGREEMENT

Parties to the Subscription Agreement

(i)	The Subscriber:	Prime Star Group Co., Ltd., a company incorporated in the BVI and beneficially wholly-owned by Mrs. Chan
(ii)	The issuer:	the Company

Securities to be issued

80,000,000 Subscription Shares (with Bonus Shares and Bonus Warrants) at a subscription price of HK$0.25 each (equal to the par value of the Shares). The aggregate subscription price for the Subscription Shares is HK$20 million. The Subscription Shares will be issued with Bonus Shares and Bonus Warrants on the following basis:

For every 100 Subscription Shares	175 Bonus Shares and 100 Bonus Warrants

The Bonus Warrants will carry the right to subscribe within 2 years from (and including) the date of issue of the Bonus Warrants for Shares at HK$0.25 per Share (subject to adjustment). Upon exercise of the Bonus Warrants, one Bonus Share will be issued with each Share subscribed.

The Subscription Shares, the Bonus Shares and the Shares to be issued upon full exercise of the Bonus Warrants pursuant to the Subscription Agreement will rank pari passu with the existing issued Shares from their respective dates of issue. As 80,000,000 Subscription Shares are to be issued to the Subscriber, an aggregate of 140,000,000 Bonus Shares will also be issued to the Subscriber. Accordingly, an aggregate of 220,000,000 Shares will be issued to the Subscriber (before exercise of any of the subscription rights attaching to the Bonus Warrants).

As at the Latest Practicable Date, a total of 1,268,117,965 Shares are in issue. The aggregate number of the Subscription Shares and Bonus Shares to be issued pursuant to the Subscription Agreement upon Completion will amount to 220 million Shares, representing approximately 17.3% of the existing issued share capital of the Company and approximately 14.8% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and Bonus Shares.

Subscription price of the Subscription Shares

The subscription price of each Subscription Share is equal to the par value of the Shares of HK$0.25 each. As 175 Bonus Shares will be issued with every 100 Subscription Shares, the effective subscription price of the Subscription Shares to be issued under the Subscription Agreement is approximately HK$0.091 which is arrived at after arm's length negotiations between the Company and the Subscriber.

The effective subscription price of HK$0.091 per Subscription Share under the Subscription Agreement represents a discount of approximately 4.2% over the closing price of the Share of HK$0.095 as quoted on the Stock Exchange on 10th May, 2002, the date before the day on which trading in the Shares was suspended pending release of the Announcement. The effective subscription price represents a premium of approximately 16.1% to the average of the closing prices of HK$0.0784 per Share for the 30 consecutive trading days ended on 10th May, 2002. The effective subscription price of the Subscription Shares also represents a discount of 29.5% to the closing price of HK$0.129 per Share on the Latest Practicable Date. The effective subscription price also represents a discount of approximately 53.8% to the unaudited net asset value of the Group of approximately HK$0.197 per Share as reported in the interim report of the Company for the six months ended 30th September, 2001.

The Directors consider that the subscription price of the Subscription Shares is fair and reasonable as far as the Shareholders are concerned.

Bonus Warrants and Bonus Shares

The Bonus Warrants will entitle the holder thereof to subscribe for 80,000,000 Shares at a price of HK$0.25 per Share (subject to adjustment) at any time during the two years from the date of issue of the Bonus Warrants. Upon exercise of the Bonus Warrants, one Bonus Share will be issued with every Share subscribed. Accordingly, 80,000,000 Bonus Shares would be issued upon full exercise of the Bonus Warrants, and the effective subscription price of the Shares to be issued upon the exercise of the Bonus Warrants is HK$0.125.

Upon full exercise of the Bonus Warrants, an aggregate of 160,000,000 Shares (consisting of 80,000,000 Shares and 80,000,000 Bonus Shares) would be issued, representing (i) approximately 12.6% of the existing issued share capital of the Company; (ii) approximately 10.8% of the issued share capital of the Company upon Completion as enlarged by the Subscription Shares and Bonus Shares; and (iii) approximately 9.7% of the issued share capital of the Company as enlarged by the Subscription Shares, the Bonus Shares and the Shares to be issued on full exercise of the Bonus Warrants. All the Shares and the Bonus Shares to be issued upon the exercise of the Bonus Warrants will rank pari passu with the existing issued Shares from their respective dates of issue.

The effective subscription price per Share upon exercise of the Bonus Warrants of HK$0.125 represents a premium of approximately 31.6% over the closing price of the Shares of HK$0.095 as quoted on the Stock Exchange on 10th May, 2002, the date before the day on which trading in the Shares was suspended pending release of the Announcement. The effective subscription price per Share represents a premium of approximately 42.0% to the average of the closing prices of the Shares for the ten consecutive trading days ended on 10th May, 2002 of HK$0.088 per Share. The effective subscription price per Share upon exercise of the Bonus Warrants also represents a discount of 3.1% over the closing price of HK$0.129 per Share on the Latest Practicable Date. The effective subscription price also represents a discount of approximately 36.5% to the unaudited net asset value of the Group of approximately HK$0.197 per Share as reported in the interim report of the Company for the six months ended 30th September, 2001.

The Directors consider that the exercise price of the Bonus Warrants is fair and reasonable as far as the Shareholders are concerned.

Conditions of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon, among others, the following conditions being fulfilled:

(i) the approval by the Shareholders of the necessary amendments to the Articles;

(ii) the approval by the Independent Shareholders at the EGM of (a) the Subscription Agreement; (b) the issue of the Subscription Shares, the Bonus Shares and the Bonus Warrants; and (c) any other transactions contemplated under the Subscription Agreement that require Independent Shareholders' approval under the Listing Rules or the Takeovers Code;

(iii) the Stock Exchange granting or agreeing to grant approval for the listing of and permission to deal in the Subscription Shares, Shares to be issued on exercise of the Bonus Warrants and the Bonus Shares;

(iv) the Executive granting the Controlling Shareholders and parties acting in concert with them a waiver from any obligation under Rule 26 of the Takeovers Code to make a mandatory general offer for all the Shares not already owned or agreed to be subscribed for by the Controlling Shareholders arising as a result of the transactions contemplated under the Subscription Agreement; and

(v) the Independent Shareholders approving at an extraordinary general meeting (with the resolution taken by poll) the Whitewash Waiver sought from the Executive mentioned in paragraph (iv) above.

No general offer will be made by the Controlling Shareholders for all the Shares. In the event that any of the conditions (i) to (v) above are not satisfied on or before 30th August, 2002 or such later date as may be agreed in writing between the parties to the Subscription Agreement, the Subscription Agreement shall cease and determine and none of the parties thereto shall have any obligations or liabilities under the Subscription Agreement, save for any antecedent breaches of the terms of the Subscription Agreement.

Completion

Completion shall take place on or before the fifth business day following the satisfaction of the conditions or any other date as may be agreed between the parties to the Subscription Agreement.

Use of Proceeds

The gross proceeds of the subscription of the 80,000,000 Subscription Shares, at the price of HK$0.25 each, will amount to HK$20 million. It is intended that approximately HK$8.5 million will be applied to settle the amount due to MBf Asia under the Compromise Agreement and that the remaining balance will be used as working capital to support the Group's growing credit card business.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a table showing the Company's existing shareholding structure and that immediately after Completion and upon exercise in full of the Bonus Warrants:

	Before Completion		Immediately after Completion		Upon full exercise of the Bonus Warrants	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Mr. Chan	80,011,509	6.31	80,011,509	5.38	80,011,509	4.85
Mrs. Chan	305,499,334	24.09	525,499,334	35.31	685,499,334	41.59
Mr. Chan Tong Wan	17,612,480	1.39	17,612,480	1.18	17,612,480	1.07
Ms. Mary-ann Chan	3,441,680	0.27	3,441,680	0.23	3,441,680	0.21
Other family members *(Note a)*	7,030,000	0.55	7,030,000	0.47	7,030,000	0.43
Mr. Fong Kwok Jen	3,828,000	0.30	3,828,000	0.26	3,828,000	0.23
Controlling Shareholders	417,423,003	32.91	637,423,003	42.83	797,423,003	48.38
Mr. Wong Dor Luk, Peter *(Note b)*	280,000	0.02	280,000	0.02	280,000	0.02
Public	850,414,962	67.07	850,414,962	57.15	850,414,962	51.60
Total	1,268,117,965	100.0	1,488,117,965	100.0	1,648,117,965	100.0

Note:

a) Family members of Mr. Chan and Mrs. Chan, namely Mr. Chan Tung Moe and Madam Wong Lai Wan. Mr. Chan Tung Moe is the son of Mr. Chan and Mrs. Chan. Madam Wong Lai Wan is the mother of Mr. Chan; and

b) Mr. Wong Dor Luk, Peter is an independent non-executive Director.

Upon Completion, the Controlling Shareholders will hold in aggregate approximately 42.83% of the enlarged issued share capital of the Company. Upon exercise in full of the Bonus Warrants, the Controlling Shareholders will hold in aggregate approximately 48.38% of the enlarged issued share capital of the Company.

REVIEW OF THE GROUP'S OPERATIONS

The Group is principally engaged in investment holding, property investment and development, financial and securities investment and credit card business. The Group recorded a turnover of approximately HK$67.6 million for the year ended 31st March, 2001, representing an increase of approximately 20.7% from that for the year ended 31st March, 2000. The net loss of the Group for the year ended 31st March, 2001 was approximately HK$99.8 million, which represented approximately three times the net loss of HK$33.8 million for year 2000.

Credit Card Business

The Group acquired OCCL and ODCL in April 2000 to carry on businesses in Hong Kong as a non-bank standalone card issuer and service provider for MasterCard Cards and Countdown Discount Cards. MasterCard is one of the world's most recognized and accepted credit cards worldwide with cash advance facilities at automatic teller machines. Countdown Discount Cards enable the holders to discount on purchases made in participating merchants in 26 countries around the world.

For the six months ended 30th September, 2001, the turnover of the Credit Card Business amounted to approximately HK$29 million, which contributed approximately 82.1% of the total turnover of the Group. During the same period, it had an operating profit of approximately HK$17.1 million, representing about 2.7 times the operating profit of the Group.

The credit card industry has been operating under fierce competition and the Group has positioned its development plan over certain niche segments to meet ever-rising customers' needs. The Group has taken positive steps to carry out tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio and reduce the credit risk exposure of the Group.

The Credit Card Business has been performing well, despite the well-publicised difficulties as regards bad debts which the credit card industry is experiencing in Hong Kong. However, the litigation with MBf Asia has held back the Group's development plan for the Credit Card Business. Pursuant to the litigation with MBf Asia, MBf Asia claimed damages against the Group as part of the consideration for the purchase by the Group of the interest in OCCL and ODCL as described in the paragraph "Background to the Compromise Agreement" above. The Directors are pleased that the signing of the Compromise Agreement should put an end to these difficulties, following which a period of further growth in the Credit Card Business is anticipated.

The number of credit cards issued by the Credit Card Business stands at approximately 16,900 as at 31st May, 2002. The Directors consider that the Credit Card Business offers opportunity for growth and expansion and, in anticipation of the settlement of the litigation with MBf Asia, will be adopting an expansionary strategy for the Credit Card Business. In this regard, the Credit Card Business launched in May 2002 the Buffet Club Co-Branded MasterCard conversion programme which targets the conversion of 5,000 to 8,000 Buffet Club Membership Card into the new Buffet Club Co-Branded MasterCard. The Credit Card Business is also planning to launch a Mun Hon Club Online Co-Branded MasterCard programme in the near future to capture consumers in the Chinese Cuisine market.

In addition, the Credit Card Business is planning to apply for recognition by the VISA International as an issuer of VISA cards. With the introduction of MBf Asia as a strategic shareholder of the Credit Card Business, the Directors expect that the experience of, and the recognition by VISA International of, MBf Asia would facilitate the acceptance of the Group as an issuer of VISA cards.

The Group's available liquid resources of approximately HK$40 million as shown in the unaudited balance sheet as at 30th September, 2001 has already largely been set aside in funding the working capital of the Group. According to the unaudited management accounts of the Group as at 31st March, 2002, there was available liquid resources of approximately HK$71 million. Out of the HK$71 million, HK$15 million was attributable to Hai Xia. Besides, HK$41 million was consolidated from three U.S. based subsidiaries (Global Med, Global Growth, eBanker (as defined below)) acquired by the Group in January 2002. The funds owned by the subsidiaries mentioned above are earmarked to finance the operations at the subsidiary level. In short, the free liquid resources available to the Company were approximately HK$15 million. Amongst the HK$15 million liquid resources, approximately HK$8 million is in the form of marketable securities and HK$7 million in liquid cash.

Apart from the aforementioned free liquid resources, the Company successfully placed preference shares of Hai Xia held by the Group in June 2002. The terms of the placing agreement for the aforesaid placement are set out in Section 5(viii) under the paragraph headed "Material Contracts" in Appendix V to this circular. The net proceeds from such placement amounting to approximately HK$37.2 million (together with the abovementioned HK$7 million) increased the total cash available to the Credit Card Business to approximately HK$44.2 million.

In addition, as set out in sections 5 (iii) and (vii) under the paragraphs headed Material Contracts in Appendix V to this circular, the Company has granted Hai Xia Finance an option to acquire up to 380,000,000 shares in Hai Xia at a revised price of HK$0.18 per share on or before 27th July, 2002. If the option is exercised in full, the amount raised by the Company would be HK$68.4 million. On 27th June, 2002, Hai Xia Finance exercised its option in respect of 30 million shares in Hai Xia, generating a cash inflow of HK$5.4 million for the Company. It is not yet known whether Hai Xia Finance intends to exercise all or any part of the balance of this option. However, Hai Xia Finance will have to exercise the balance of this option in whole or in part, or let it lapse, before the date for the holding of the EGM on 31st July, 2002.

Notwithstanding the overall improvement in the working capital position of the Group as a result of such placement and the limited exercise of the option, and even if Hai Xia Finance exercises its option over the shares in Hai Xia in full or in part, the Directors consider that it is beneficial to the Group to increase the net asset base of the Group and build up additional liquidity for the Credit Card Business through the Subscription Agreement as the pace of development and expansion of the Credit Card Business is expected to be faster after the settlement of the litigation.

The remaining balance from the proceeds of the Subscription Agreement after funding the settlement of the litigation will amount to approximately HK$11.5 million which will provide additional working capital for the Credit Card Business.

Financial and Securities Investment

The aggregate turnover of the financial and securities investment division of the Group for the year ended 31st March, 2001 amounted to approximately HK$19.9 million, representing a decrease of approximately 55.8% as compared to approximately HK$45.0 million for the year ended 31st March, 2000. Its contribution to the total turnover of the Group has decreased from 80.4% in 2000 to 29.4% in 2001. Such decrease was mainly due to the decrease in turnover of securities trading and investments which was the result of unfavourable securities market conditions in Hong Kong, as reflected by the decrease in the Hang Seng Index from about 17,000 in April 2000 to about 12,000 in July 2001. The contribution of the financial and securities investment division of the Group to turnover has decreased from HK$10.4 million in the six months ended 30th September, 2000 to HK$5.6 million in the six months ended 30th September, 2001, representing a decrease of 46.2%.

The financial and securities investment division of the Group incurred an operating loss of approximately HK$43.7 million for the year ended 31st March, 2001, representing an increase of 110 times when compared with its operating loss of approximately HK$0.4 million for the year 2000. Its contribution to profit from operations has also decreased slightly by 5.0% from HK$10.0 million in the six months ended 30th September, 2000 to HK$9.5 million in the six months ended 30th September, 2001. The financial and securities investment division of the Group has suffered as a result of the volatile conditions in the capital markets since the 11th September incident in the U.S..

Hai Xia Holdings Limited

The Company holds a 50.06% interest in the ordinary shares of a listed subsidiary, Hai Xia. Hai Xia is principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investments. Hai Xia has recently diversified into the energy sector in the PRC by entering into agreements to invest in joint ventures in natural gas projects in the outer Beijing area, in Hunan and Hubei Provinces in the PRC. The investments will enable Hai Xia to take advantage of opportunities in the PRC energy sector, in particular, the natural gas industry. Such investments, however, are in their relatively early stage and contributions in terms of earnings and working capital are expected to materialize in the longer term. For the years ended 31st March, 2001 and 2000, Hai Xia recorded consolidated losses of HK$5.2 million and HK$0.6 million, respectively. For the six months ended 30th September, 2001, Hai Xia recorded unaudited consolidated losses of HK$1.1 million. The audited consolidated net asset value of Hai Xia was HK$70.4 million as at 31st March, 2001. As at 30th September, 2001, Hai Xia had an unaudited consolidated net asset value of HK$87.4 million.

Property Investment

The Group's principal property assets in Hong Kong comprise industrial properties in Kwun Tong and office units in North Point. The Group also possesses vacant land in Kowloon City and Hung Hom in Hong Kong and in Riverside County in California in the U.S. held as properties under development. The principal properties in Hong Kong are held under Hai Xia. In view of the uncertain economic conditions and the constraints on the financial resources of the Group, the Group has adopted a prudent management approach and has deferred plans for the development of the relevant sites.

eBanker, Global Med and Global Growth

In January 2002, the Group completed the restructuring of its investments in Global Med Technologies, Inc. ("Global Med"), Global Growth Management Inc. ("Global Growth") and eBanker USA.com, Inc. ("eBanker"). Pursuant to the restructuring, the Group acquired (a) an approximately 39.9% interest in eBanker; (b) a 4.7% interest in Global Med; and (c) the entire issued capital of Global Growth from eVision International, Inc. ("eVision") (formerly known as eVision USA.com, Inc., (a company owned as to approximately 35.05% by the Group)). The aggregate consideration of US$7.3 million was satisfied by the reduction of an equivalent amount of debenture issued by eVision to the Company. Pursuant to the above restructuring, the Group's direct interest in Global Med increased from 8.9% to 13.6% by the acquisition of an approximately 4.7% for a consideration of US$795,000. Global Med has since issued further equity interests to eBanker as a result of which the Group's direct interest was diluted from 13.6% to 12.49%.

As at the Latest Practicable Date, the Group is interested in (i) an approximately 40.26% interest in eBanker; (ii) a 100% interest in Global Growth; and (iii) an aggregate interest of 58.39% in Global Med (comprising direct interest of 12.49% and through eBanker of 45.9%). Details of the restructuring were included in a circular of the Company dated 30th June, 2001. eBanker is principally engaged in the provision of high-margin products and services to underserved financial niche markets. eBanker offers customized financial products and services including corporate credit card facilities, customized corporate financing, share financing, bond financing and property development financing. Global Med designs, develops, markets and supports information management software products for blood banks, hospitals, centralized transfusion centers and other healthcare related facilities. Global Growth owns a commercial office property located in Vancouver, British Columbia, Canada.

The Group currently holds approximately 40.26% interest in eBanker. eBanker, in turn, holds 45.9% interest in Global Med. eBanker also holds a 100% interest in Global Med International Holdings Limited ("GMIH") and GMIH holds a 100% interest in Global Med International Limited ("GMI"). Pursuant to an internal restructuring of the interest in Global Med ("Reorganisation"), eBanker will transfer its interest in Global Med to GMI.

On 28th June, 2002, GMIH entered into a conditional agreement to dispose of a 4% interest in the issued share capital of GMI (the "GMI Sale") to TechCap Holdings Limited, an independent third party ("TechCap"). The consideration for the sale of 4% interest in GMI is HK$18 million which is to be satisfied by the issue of an unsecured promissory note by TechCap pursuant to which the consideration shall be payable by TechCap on or before 28th June, 2003 with interest at the rate of 10% per annum which is payable on a semi-annual basis. It is one of the conditions for the GMI Sale that the 45.9% interest in Global Med shall be transferred from eBanker to GMI on or before completion of the GMI Sale. The Group is undergoing such a Reorganisation.

After completion of the GMI Sale, the Group will remain as a holder of 40.26% interest in eBanker which will remain as a holder of the entire interest in GMIH. GMIH will hold 96% interest in GMI which will hold 45.9% interest in Global Med after completion of the GMI Sale.

In addition to the GMI Sale mentioned above, GMIH has entered into a non-legally binding memorandum of understanding whereby GMIH intends to grant an option to TechCap pursuant to which TechCap may exercise its rights to purchase from GMIH the interest in GMI held by GMIH, being 96% of the issued shares of GMI after completion of the GMI Sale. Detailed terms of the option (including the price and consideration) has not been agreed.

REASONS FOR THE SUBSCRIPTION AGREEMENT

The principal reasons for the Subscription Agreement are to finance the settlement of the litigation with MBf Asia and to provide working capital for the Credit Card Business. The litigation with MBf Asia dates back from November 2000 and has been ongoing until the Compromise Agreement was reached in April 2002. The litigation has hindered management efforts to grow the Credit Card Business since it was acquired. The litigation has limited the fund raising opportunities for the Group since most banks or lending institutions are not willing to provide finance to the Group given the uncertainty ahead of the litigation. In addition, the litigation diverted a significant amount of the management's resources from the normal operations of the Credit Card Business. The litigation, if not resolved, is likely to constrain the future development of the Credit Card Business. Recently, an opportunity arose to reach an acceptable settlement with MBf Asia on the basis set out under the Compromise Agreement. The Board decided that it was in the Company's interest to settle and to conclude matters quickly while the opportunity existed. An element of cash was a necessary part of the terms and the Company was also required to demonstrate that the cash was definitely available. Consequently, there was no time to arrange for a rights issue nor, in the view of the Company, could a rights issue have been commercially underwritten on terms as favourable as the terms of the Subscription Agreement and without a "force majeure" clause which carries a completion risk.

In addition, the effective issue price under the Subscription Agreement (HK$0.091 per Share), including the element of Bonus Shares, represents a premium of approximately 16.1% over the 30 day average closing price of HK$0.0784 per Share ended on 10th May, 2002. This period includes the 4 trading days (from 8th May, 2002 to 13th May, 2002) just before the suspension of trading of the Shares before signing of the Subscription Agreement dated 27th May, 2002 when the Share price rose sharply. A subscription agreement on commercial terms on the other hand would have been typically priced at, say a 10% discount to recent average market prices and the discount for a commercially underwritten rights issue, with an approximately 2 months timetable, would have been considerably larger. The Bonus Warrants form part of the overall package. At the time the Subscription Agreement was signed, the premium of the effective exercise price of the Shares to be issued upon the exercise of the Bonus Warrants of HK$0.125 per Share over the recent average market price (for the 30 consecutive days ended on 10th May, 2002) of HK$0.0784 per Share was approximately 59.4%, giving the Bonus Warrants little or no theoretical value at that time. The respective effective issue prices of the Subscription Shares and the Shares upon the exercise of the Bonus Warrants under the Subscription Agreement have been determined with a view to applying a premium to the then market prices of the Shares at the time when negotiations in relation to the Subscription Agreement were carried out in May 2002. Such pricing is, in the view of the Directors, in the best interest of the Company and its Shareholders as a whole and a similar fund raising exercise with independent investors is likely to result in a larger discount to the prevailing market prices.

FUTURE INTENTION OF THE CONTROLLING SHAREHOLDERS REGARDING THE GROUP

The Controlling Shareholders intend that the Group will continue its existing operations of investment holding, property investment and development, financial and securities investment and credit card business. The Controlling Shareholders do not have any plan to inject any assets into the Company. The Controlling Shareholders do not intend to implement major changes (including the redeployment of fixed assets) to the Group. The Controlling Shareholders have no intention to make any changes to the continued employment of the employees at the Company and of its subsidiaries. In the longer term, the Subscription Agreement will provide funding to the Group to facilitate the settlement under the Compromise Agreement so as to position the Credit Card Business, being the largest operating division, for long term growth.

TAKEOVERS CODE IMPLICATIONS

Upon allotment and issue of the Subscription Shares and the Bonus Shares, the Controlling Shareholders' interests in the Shares will increase from approximately 32.91% of the existing Shares to approximately 42.83% of the enlarged issue share capital of the Company. The aggregate interest of the Controlling Shareholders and its concert parties would be further increased to approximately 48.38% of the Company's enlarged issued share capital upon exercise in full of the Bonus Warrants.

Under Rule 26.6 of the Takeovers Code, where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a company but less than 35% of such voting rights immediately prior to implementation of Rule 26.6 on 19th October, 2001 then, for so long as such holding remains in this range and until 10 years after that date: (i) the Takeovers Code (other than Rule 26.6) shall be interpreted and applied as if the 30% trigger in Rule 26.1 (a) and (b) was 35% for such person or persons; and (ii) such person or persons are not subject to the 2% creeper under Rule 26.1(c) and (d).

Given the Controlling Shareholders together owned approximately 32.91% of the voting rights of the Company prior to the implementation of Rule 26.6 on 19th October, 2001, the Controlling Shareholders will be obliged to make a mandatory general offer for all securities of the Company other than those already owned or agreed to be subscribed for by them upon Completion or full exercise of the subscription rights attaching to the Bonus Warrants since the Controlling Shareholders' interest in the voting rights of the Company will be increased to over 35%.

The Controlling Shareholders have applied to the Executive for a Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders by way of a poll at the EGM. The Executive has indicated that, subject to the Independent Shareholders' approval by way of a poll of the Subscription Agreement and the Whitewash Waiver at the EGM, it will waive any obligation of the Controlling Shareholders to make a general offer which might arise as a result of the Subscription Agreement.

No general offer will be made by the Controlling Shareholders for all the Shares. The Controlling Shareholders have confirmed that they have not acquired any voting rights in the Company in the Relevant Period.

LISTING RULES

The Company will apply to the Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares, Shares to be issued on exercise of the Bonus Warrants and the Bonus Shares.

BONUS SHARES AND AMENDMENT OF ARTICLES

The existing Articles currently permit the issue of bonus shares pursuant to a capitalisation issue by a distribution of bonus shares among Shareholders in proportion to their respective shareholding in the Company. In order to effect the Subscription Agreement, the Directors will propose an amendment to the Articles to allow the issue of the Bonus Shares by way of a capitalisation issue other than on a pro rata basis. The amendment of the Articles is conditional on the approval of the Shareholders at the EGM.

The Company's legal adviser has confirmed that the proposed amendment to the Articles does not dispense with the requirements, in the context of allotment and issue of shares by way of a capitalisation issue, to obtain the consent of shareholders in general meeting under paragraphs 19(1)(a) and (b) of the Listing Agreement.

The Bonus Shares are proposed to be issued as fully paid-up by way of a capitalisation of an amount of up to HK$55 million standing to the credit of the share premium account of the Company.

GENERAL MANDATE TO ISSUE NEW SECURITIES

The Directors are taking the opportunity to propose an ordinary resolution at the EGM to give to the Directors the powers under the New Issue Mandate to allot, issue and otherwise deal with new Shares and other securities with an aggregate nominal amount not exceeding 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following Completion. The Directors will also propose a separate ordinary resolution at the EGM to add to the New Issue Mandate any Shares repurchased by the Company pursuant to the Repurchase Mandate.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors are also taking the opportunity to propose an ordinary resolution at the EGM to give to the Directors the Repurchase Mandate to exercise all the powers of the Company to repurchase Shares subject to the terms of the relevant resolution. In particular, Shareholders should note that the maximum number of Shares which may be repurchased pursuant to the Repurchase Mandate will be such number of Shares as represents 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following Completion.

In accordance with the requirements of the Listing Rules, the Company is required to send to the Shareholders an explanatory statement containing all the information reasonably necessary to enable them to make an informed decision as to whether to vote for or against the grant of the Repurchase Mandate. An explanatory statement as required by the Listing Rules in connection with the Repurchase Mandate is set out in Appendix IV to this circular.

EGM

Set out in this circular is a notice convening the EGM which will be held on Wednesday, 31st July, 2002 at 9:30 a.m. at Park Lane IV, 27th Floor, The Park Lane, 310 Gloucester Road, Hong Kong at which resolutions will be proposed to approve, among other things, the Subscription Agreement, the Whitewash Waiver, the amendment of the Articles, the New Issue Mandate, the Repurchase Mandate and the granting of an extension of the New Issue Mandate.

At the EGM, ordinary resolution numbered 2 will be proposed to approve the Subscription Agreement and ordinary resolution numbered 3 will be proposed to approve the Whitewash Waiver (which will be taken on poll). Special resolution numbered 1 will be proposed to approve the amendments to the Articles.

Resolutions will also be proposed at the EGM to seek, amongst other things, Shareholders' approval for the granting of the New Issue Mandate, the granting of the Repurchase Mandate and the granting of an extension of the New Issue Mandate.

The Controlling Shareholders, holding 417,423,003 Shares as at the Latest Practicable Date, which represent approximately 32.91% of the existing issued share capital of the Company, will abstain from voting in respect of the resolutions numbered 2 and 3 at the EGM.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the registered office of the Company, and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment of it. Delivery of a form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 20 of this circular which contains its recommendations to the Independent Shareholders as to voting at the EGM regarding the Subscription Agreement and the Whitewash Waiver and the letter received from Tai Fook Capital which contains, amongst other things, its advice to the Independent Board Committee as regards the Subscription Agreement and the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Tai Fook Capital is set out on pages 21 to 41 of this circular.

The Directors are of the opinion that the amendments to the Articles serves to facilitate the Subscription, the New Issue Mandate, the Repurchase Mandate and the granting of an extension of the New Issue Mandate are in the interest of the Company. Accordingly, the Directors recommend you to vote in favour of the resolutions to be proposed at the EGM.

GENERAL

Your attention is drawn to the information contained in the Appendices to this circular.

By order of the Board
Heng Fung Holdings Limited
Chan Heng Fai
Chairman and Managing Director

HENG FUNG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

8th July, 2002

To the Independent Shareholders

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Subscription Agreement and the Whitewash Waiver, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 8th July, 2002 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Shareholders should read carefully the letter of advice from Tai Fook Capital, the independent financial adviser to the Independent Board Committee, containing its opinion regarding the Subscription Agreement and the Whitewash Waiver set out on pages 21 to 41 of the Circular.

Having considered the terms of the Subscription Agreement and the advice of Tai Fook Capital in relation to the Subscription Agreement and the Whitewash Waiver as set out on pages 21 to 41 of the Circular, we are of the opinion that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Subscription Agreement and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee

Lee Ka Leung, Daniel **Wong Dor Luk, Peter**
Ha Kee Choy

The following is the text of a letter from Tai Fook Capital in connection with the Subscription Agreement and the Whitewash Waiver which has been prepared for the purpose of inclusion in this circular:

Tai Fook Capital Limited

26th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

8th July, 2002

To the Independent Board Committee
Heng Fung Holdings Limited

Dear Sirs,

**SETTLEMENT OF LITIGATION,
PROPOSED ISSUE OF SUBSCRIPTION SHARES
WITH BONUS SHARES AND BONUS WARRANTS
(CONNECTED TRANSACTION)
AND APPLICATION FOR WHITEWASH WAIVER**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the proposed subscription of the Subscription Shares (with Bonus Shares and Bonus Warrants) (the "Subscription") and the Whitewash Waiver, details of which are contained in the circular dated 8th July, 2002 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings in the Circular unless the context otherwise requires.

Pursuant to Chapter 14 of the Listing Rules, the Subscription constitutes a connected transaction for the Company which is subject to the approval of the Independent Shareholders at the EGM. In addition, the Controlling Shareholders will be obliged under Rule 26 of the Takeovers Code to make a mandatory general offer for all securities of the Company other than those already owned or agreed to be subscribed for by them upon Completion or full exercise of the subscription rights attaching to the Bonus Warrants. In this regard, the Controlling Shareholders have applied to the Executive for the grant of the Whitewash Waiver. In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

The Independent Board Committee has been established to advise the Independent Shareholders in relation to the Subscription and the Whitewash Waiver. Mr. Chan and Mrs. Chan have interests in the Subscription. Mr. Chan Tong Wan and Ms. Chan Sook Jin, Mary-ann are the son and daughter of Mr. Chan and Mrs. Chan. Mr. Fong Kwok Jen is also a legal adviser to Mr. Chan and Mrs. Chan since 1990 on personal investments of Mr. Chan and Mrs. Chan in various transactions in relation to their shareholdings in corporations where they have substantial shareholding or effective control. Mr. Chan Tong Wan, Ms. Chan Sook Jin, Mary-ann and Mr. Fong Kwok Jen are all deemed to be parties acting in concert with the Controlling Shareholders. Accordingly, none of the above Directors is considered independent to participate in the Independent Board Committee. Mr. Lee Ka Leung, Daniel, Mr. Wong Dor Luk, Peter and Mr. Ha Kee Choy have been invited to constitute the Independent Board Committee to consider, among other matters, the Subscription and the Whitewash Waiver.

In formulating our recommendations, we have relied on the information and facts supplied and representations made by the Directors and/or the management of the Group. We have been advised by the Directors and/or the management of the Group that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading. We have assumed that the information contained and representations made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular. We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the Subscription and the Whitewash Waiver and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Subscription and the Whitewash Waiver, we have considered, among other things, the following principal factors and reasons:

I. BACKGROUND INFORMATION

Principal activities of the Group

The Group is principally engaged in investment holding, property investment and development, financial and securities investment and credit card business in Hong Kong.

The Compromise Agreement and the Subscription

Details of the Compromise Agreement and the Subscription are set out under the sections headed "The Compromise Agreement" and "The Subscription Agreement" in the Letter from the Board of the Circular.

Litigation between the Group and MBf Asia

Details about the background of the litigation between the Group and MBf Asia (the "Litigation") and the settlement terms of the Compromise Agreement are set out under the section headed "The Compromise Agreement" in the Letter from the Board of the Circular.

Results of operations of the Group

Set out below are the segmental financial analyses of the Group for the two financial years ended 31st March, 2001, the six months ended 30th September, 2000 and the six months ended 30th September, 2001. Since the Credit Card Business was only acquired by the Group in late April of 2000, we consider that such comparison and analyses are relevant and appropriate for the purpose of assessing the recent performance of the Group.

Set out below are the Group's turnover and contribution to loss before taxation for the two years ended 31st March, 2001, analysed by principal activity and extracted from the annual report of the Company for the year ended 31st March, 2001:

	Group's turnover Year ended 31st March,				Contribution to loss before taxation Year ended 31st March,	
	2001	***Changes compared to previous corresponding period***	**2000**	***Changes compared to previous corresponding period***	**2001**	**2000**
	HK$'000	*in %*	*HK$'000*	*in %*	*HK$'000*	*HK$'000*
By principal activity:						
Credit Card Business	42,192	*not applicable*	–	*not applicable*	(1,091)	–
Securities trading and investments	6,412	*- 76.3%*	27,031	*176.7%*	(12,178)	(18,364)
Treasury investment	13,506	*- 24.8%*	17,970	*- 38.0%*	(31,494)	17,970
Retailing of fashion apparel and accessories	3,586	*- 59.7%*	8,907	*not applicable*	1,817	5,917
Property investment	1,925	*- 9.9%*	2,137	*39.6%*	1,398	2,021
	67,621	*20.7%*	56,045	*39.1%*	(41,548)	7,544
Unallocated corporate expenses					(49,828)	(40,223)
Finance costs					(9,063)	(638)
Loss before taxation					(100,439)	(33,317)

Unallocated corporate expenses represents expenses such as audit fee, directors' remuneration and office expenses that cannot be directly allocated to individual business activity of the Group. The amounts of approximately HK$67,621,000 and HK$56,405,000 are the Group's revenue for the year ended 31st March, 2001 and 2000 respectively. The aggregate turnover of retailing and property investment business represents only approximately 8.1% of the Group's total turnover for the year ended 31st March, 2001 which were not considered as a major business activities of the Group.

The Group recorded a turnover of approximately HK$67.6 million for the year ended 31st March, 2001, representing an increase of approximately 20.7% from that for the year ended 31st March, 2000. The increase in turnover was mainly attributable to the Credit Card Business newly acquired by the Group in late April of 2000. For the year ended 31st March, 2001, the Credit Card Business contributed approximately 62.4% of the total turnover of the Group. Notwithstanding fierce competition and the well-publicised bad debts problem of the credit card industry in Hong Kong as stated under the sub-section headed "Industry environment and prospects of the credit business" below, the Group managed to control the loss of the newly acquired Credit Card Business to approximately HK$1.1 million albeit a provision for bad and doubtful debts of approximately HK$26.9 million had made. As advised by the Directors, positive steps such as more frequent telephone calls for chasing of overdue accounts and closely monitoring of overdue accounts were taken out by the Group to shorten time for collection of accounts receivables in order to minimize the possibility of bad debts expenses after the acquisition of the Credit Card Business.

The aggregate turnover of securities trading and investments and treasury investments of the Group for the year ended 31st March, 2001 amounted to approximately HK$19.9 million, representing a decrease of approximately 55.7% as compared to approximately HK$45.0 million for the year ended 31st March, 2000. Such decrease was mainly due to the decrease in turnover of securities trading and investments which was the result of unfavourable securities market condition in Hong Kong as reflected by the drop in Hang Seng Index from about 17,000 points in April 2000 to about 12,000 points in July 2001. The loss in securities trading and investments for the year ended 31st March, 2001 was mainly attributable to the provision made against the diminution in value of securities held by the Group of approximately HK$12.6 million.

Loss before taxation of the Group increased from approximately HK$33.3 million for the year ended 31st March, 2000 to approximately HK$100.4 million for the year ended 31st March, 2001. Such increase was mainly attributable to (i) the loss in securities trading and investments as mentioned above; (ii) the recognition of a loss in debt securities on maturity of approximately HK$45.0 million as a result of the default by the issuer of such debt securities and the downward adjustment in the equity markets in the U.S. as reflected by the drop in Dow Jones Index from approximately 11,000 points in April 2000 to approximately 10,000 points in March 2001 and NASDAQ Index from approximately 4,000 points in April 2000 to approximately 2,000 points in March 2001; and (iii) the increase in staff costs and rental expenses as a result of the acquisition of the Credit Card Business.

Set out below are the Group's turnover and contribution to profit/loss from operations for the six months ended 30th September, 2001 and the six months ended 30th September, 2000, analysed by business segments and extracted from the interim report of the Company for the six months ended 30th September, 2001.

	Group's turnover Six months ended 30th September,				Contribution to profit/loss from operations Six months ended 30th September,	
	2001	***Changes compared to previous corresponding period***	**2000**	***Changes compared to previous corresponding period***	**2001**	**2000**
	HK$'000	*in %*	*HK$'000*	*in %*	*HK$'000*	*HK$'000*
	(unaudited)		*(unaudited)*		*(unaudited)*	*(unaudited)*
By principal activity:						
Credit Card Business	29,111	*23.0*	13,056	*not applicable*	17,071	(468)
Securities trading and investments	1,737	*- 30.2%*	2,490	*14.3%*	1,801	2,115
Treasury investment	3,885	*- 51.0%*	7,933	*- 12.9%*	7,721	7,933
Retailing of fashion apparel and accessories	72	*- 97.5%*	2,873	*- 32.1%*	(368)	284
Property investment	670	*- 21.1%*	849	*- 13.5%*	550	316
	35,475	*30.4%*	27,201	*64.9%*	26,775	10,180
Unallocated corporate expenses					(20,370)	(22,205)
Profit/(loss) from operations					6,405	(12,025)

The Group recorded a turnover of approximately HK$35.5 million for the six months ended 30th September, 2001, representing an increase of approximately 30.4% from approximately HK$27.2 million for the six months ended 30th September, 2000. The increase in turnover was mainly attributable to the increase in turnover of the Credit Card Business which was acquired by the Group in late April of 2000 from approximately HK$13.1 million for the six months ended 30th September, 2000 to approximately HK$29.1 million for the six months ended 30th September, 2001. However, such increase was partially offset by the poor performance of the Group's retail fashion business and lower income resulted from treasury investment and securities trading and investment. For the six months ended 30th September, 2001, the contribution of the Credit Card Business to the Group's turnover amounted to approximately HK$29.1 million or approximately 82.1% of the total turnover of the Group.

The Group recorded an operating profit of approximately HK$6.4 million for the six months ended 30th September, 2001, as compared to a loss of approximately HK$12.0 million for the six months ended 30th September, 2000. Such changes in the Group's operating results were mainly attributable to the continuous growth of the Credit Card Business as reflected by the increase in turnover of the Credit Card Business.

From the above analyses, after the acquisition of the Credit Card Business made by the Group in late April of 2000, the Credit Card Business has become the major business segment of the Group in terms of turnover. The Credit Card Business has been improving and performing well as reflected by the increase in turnover and the profit contribution. As advised by the Directors, such improvement in the operating results of the Credit Card Business is mainly due to (i) the successful launches of various co-branded cards; (ii) tighter cost control measures including reduction in inventories for bonus point programmes; (iii) reduction in bad and doubtful debts expenses from approximately HK$4.4 million for six months ended 30th September, 2000 to approximately HK$3.4 million for the six months ended 30th September, 2001 as a result of improvement in collection of accounts receivables; and (iv) improved efficiency of the existing sales and marketing staff.

As stated in the letter from the Board of the Circular, the number of credit cards issued by the Credit Card Business stands at approximately 16,900 as at 31st May, 2002. The Directors consider that the Credit Card Business offers opportunity for growth and expansion and, in anticipation of the settlement of the litigation with MBf Asia, will be adopting an expansionary strategy for the Credit Card Business. In this regard, the Credit Card Business launched in May 2002 the Buffet Club Co-Branded MasterCard conversion programme which targets the conversion of 5,000 to 8,000 Buffet Club Membership Card into the new Buffet Club Co-brand MasterCard. The Credit Card Business is also planning to launch a Mun Hon Club Online Co-Branded MasterCard programme in the near future to capture consumers in the Chinese Cuisine market.

As advised by the Directors, both the Buffet Club and Mun Hon Club are organized by the co-brander which is a marketing company specializing in loyalty programs promotion in association with various marketing partners such as hotels, fitness centers and travel agents. Holders of the Buffet Club or Mun Hon Club Co-Branded MasterCard are customers of the Group as well as the Buffet Club and Mun Hon Club. To encourage conversion of the Buffet Club Membership Card into the Buffet Club Co-Branded MasterCard, incentives were given to the cardholders such as spending credit, up to 56 days interest free repayment period, bonus points programme, 24-hour customer hotline and free travel and purchase protection insurance. We consider that the aforesaid strategy to induce conversion of certain customers of other co-branded cards into the Group's customers can broaden the cardholder base of the Group without investing too much marketing resources. As such, we consider that such strategy is positive to the future development of the Credit Card Business.

Based on the above, we consider that the results of the Credit Card Business have been improving despite of the fierce competition and the well-publicised bad debts problem of the credit card industry in Hong Kong as detailed in the section headed "Industry environment and prospects of the credit card business" below.

Latest financial results and positions of the Group

Based on the unaudited consolidated management accounts of the Group for the ten months ended 31st January, 2002, being the latest consolidated management accounts of the Group as at the Latest Practicable Date, the unaudited consolidated loss attributable to the Shareholders for the ten months ended 31st January, 2002 amounted to approximately HK$26.4 million and the adjusted unaudited consolidated net tangible asset value of the Group immediately before Completion amounted to approximately HK$216.0 million (as shown under the section headed "Pro forma statement of unaudited adjusted consolidated net tangible asset value" in Appendix I to the Circular).

Industry environment and prospects of the credit card business

Credit card market in Hong Kong operates in a dynamic and competitive environment with over 25 card issuers including banks and non deposit-taking companies in the market. Total credit cards in circulation amounted to approximately 9.4 million as of March 2002. Credit cards in Hong Kong are generally used for credit purchases and for obtaining cash advances. Interest is charged at a rate ranging from a minimum of 15% to a maximum of 36% per annum.

The credit card market has been experiencing rapid growth over the past few years. According to a survey on credit card receivables for March 2002 conducted by the Hong Kong Monetary Authority, total number of credit cards in issue has been increased from approximately 7.5 million as of March 2001 to approximately 9.4 million as of March 2002, representing an increase of approximately 25.3%. According to the same survey, the outstanding credit card receivables has also increased from approximately HK$51.5 billion as of March 2001 to approximately HK$60.3 billion as of March 2002, representing an increase of approximately 17.1%. However, fierce competition among credit card issuers do exist as credit card products are very much similar in nature with one another. Fierce competition exists in the area of marketing promotion, such as free gifts, and customers services.

Recent figures show that credit card and consumer loan business are under the threat of rising credit risk as charge-off ratio (being the annualised amount of credit card receivables written off by credit card issuers in Hong Kong during a period as a percentage to the total credit card receivables of credit card issuers in Hong Kong at the end of that period) rose from approximately 8.27% (annualised) to approximately 9.04% in the first quarter of 2002. Rising unemployment rate (from approximately 2.2% in 1997 to approximately 7.4% in 2002) and personal bankruptcy probably are the main reasons behind. Latest unemployment rate has reached a record high of approximately 7.4%, accompanied by a surge in personal bankruptcy to 10,685 for the first five months of 2002, representing a 1.9 times increase from the same period of 2001.

We consider that, notwithstanding the continual rise in charge-off rate as a result of the prevailing economic condition, the market environment of the credit card business remains positive as the market size is growing. This can be evidenced by the continual increases in the number of cards in issue and the outstanding credit card receivables as mentioned above. Moreover, we consider that the overall charge-off rate will reduce when the economy returns to the track of recovery.

As stated in the annual report of the Company for the year ended 31st March, 2001, the Group will continue to position its development plan over niche market segments such as higher income earners with stable and secure income source. The Directors believe that, through tightening of the selection criteria of the potential credit card customers, the Group will be able to capture the aforesaid market segments. In addition, the Group has also taken out positive steps to minimize the possibility of bad debts expenses as mentioned under the sub-section headed “Results of operations of the Group” above. We consider that, even though the economy in Hong Kong may remain sluggish in the future, the Credit Card Business will remain profitable if the Group can continue to target the aforesaid niche market segments and implement effective policies or procedures to reduce losses as a result of charging-off credit card receivables.

II. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

As stated in the Letter from the Board of the Circular, the proceeds from the Subscription will be applied towards the settlement of the Litigation pursuant to the Compromise Agreement and for the additional working capital for the Credit Card Business. Below are the major reasons for and benefits to the Group of the Subscription.

Benefits of the settlement of the Litigation to the Group

Notwithstanding fierce competition and the well-publicised bad debts problem of credit card industry in Hong Kong (as discussed in the sub-section headed "Industry environment and prospects of the credit card business" above), the Credit Card Business has been performing well (as discussed in the sub-section headed "Results of operations of the Group" above). However, the Litigation has limited the fund raising opportunities for the Group since most banks or lending institutions are not willing to provide finance to the Group given the uncertainty ahead of the Litigation. In addition, the Litigation consumed a significant amount of the management's resources from the normal operations of the Credit Card Business. As such, the Litigation has held back the Group's development plan for the Credit Card Business, and if not resolved on a timely basis, is likely to constrain the future development of the Credit Card Business. Accordingly, the Directors consider that the entering into of the Compromise Agreement for the purpose of the settlement of the Litigation is advantageous to the future development of the Credit Card Business.

As advised by the Directors, MBf Asia is a wholly owned subsidiary of MBf Holdings Berhad ("MBf"), a company listed on the Kuala Lumpur Stock Exchange. MBf is a Malaysia based conglomerate principally engaged in the credit card business, banking and financial services, motor vehicles and heavy machinery distribution and management of hotels, properties and clubs. Although MBf is in the midst of implementing a debt restructuring exercise, the credit card division of MBf is performing well, recording a profit before tax of approximately RM34.3 million (or equivalent to approximately HK$75.5 million) for the year ended 31st December, 2001 compared with the profit before tax of RM27.4 million (or equivalent to approximately HK$60.3 million) in the previous year, representing an increase of approximately 25.2%. Based on the annual report of MBf for the year ended 31st December, 2001, the credit card division of MBf had successfully launched a number of new cards and the issuance of VISA Card was also under way.

Pursuant to the Compromise Agreement, the Group will transfer 18% equity interest in the Credit Card Business to MBf Asia in lieu of cash settlement amounting to HK$14.6 million. The Directors consider that such settlement terms will substantially release the financial burden on the Group and at the same time provide business alliance opportunity with MBf Asia. Accordingly, the Directors anticipate that the pace of development and expansion of the Credit Card Business will be speeded up as MBf Asia will contribute its expertise in the credit card business to the Group through joint management of the Credit Card Business.

As advised by the Directors, the following are the possible reasons that MBf Asia had turned from a counter party in a litigation case into a business partner:

(i) both the Group and MBf Asia may not want to suffer further legal cost which may be a material amount if the case goes on;

(ii) through cooperation with the Group, MBf Asia have a chance to diversify its credit card business geographically into Hong Kong and the PRC markets; and

(iii) the Credit Card Business is proved to be a profitable business under the Group's management, MBf Asia may consider it is a good investment opportunity at a reasonable price.

The Directors therefore consider that it is in the interest of the Group to settle the Litigation as soon as possible given the aforementioned advantages that will be brought to the Group upon completion of the Compromise Agreement.

In arriving at our view on the benefits of the settlement of the Litigation, we have considered the following:

(i) As stated in the section headed "The Compromise Agreement" in the Letter from the Board of the Circular, the amount claimed by MBf Asia in respect of the Litigation amounted to approximately HK$38.7 million. Such amount has been substantially reduced to approximately HK$23.1 million according to the settlement terms of the Compromise Agreement. Out of the HK$23.1 million, HK$14.6 million will be satisfied by the transfer of 18% equity interest in the Credit Card Business to MBf Asia. As such, the overall cash payment by the Group for the settlement of the Litigation will become approximately HK$8.5 million, which is substantially lower than the original HK$38.7 million being claimed by MBf Asia.

(ii) Given the Litigation was a result of the acquisition of the Credit Card Business which was one-off in nature, we consider that the risk of reoccurence of the Litigation is low following its settlement under the Compromise Agreement. In addition, the settlement of the Litigation can avoid uncertainties and potential legal costs, which may be significant when the case is proceeded to trial. Should the Group lost the case, the financial burden on the Group will be even greater.

(iii) As advised by the Directors, upon settlement of the Litigation and the completion of the transfer of 18% equity interest in the Credit Card Business to MBf Asia, MBf Asia will provide technology support for the computer system of the Credit Card Business. The Directors anticipate that, through cooperation with MBf Asia, the Group will be benefited from the improved efficiency in respect of the operation of the Credit Card Business. In addition, the Credit Card Business is planning to apply for recognition by VISA International as one of its licensed credit issuers as stated in the Letter from the Board of the Circular. With the introduction of MBf Asia as a strategic shareholder of the Credit Card Business, the Directors expect that the experience of, and the recognition by VISA International of, MBf Asia would facilitate the acceptance of the Group as one of the licensed credit card issuers of VISA International.

(iv) Management can refocus on the normal operations of the Credit Card Business and divert more resources to the future expansion of the Credit Card Business upon settlement of the Litigation.

Based on the above, we consider that the settlement of the Litigation is beneficial to the Group and the Shareholders as a whole.

Provision of additional working capital for the Credit Card Business

As stated in the section headed "Review of the Group's operations" in the Letter from the Board of the Circular, the Group had available liquid cash and marketable securities of approximately HK$71 million based on its unaudited consolidated financial statements as at 31st March, 2002. Out of this HK$71 million, HK$15 million and HK$41 million were attributable to (i) Hai Xia, a Hong Kong listed subsidiary of the Group; and (ii) eBanker, Global Growth and Global Med, being three U.S. based subsidiaries of the Group which were all earmarked to finance the operations of these subsidiaries and would not be available for the Credit Card Business. Therefore, the free liquid cash and marketable securities available to the Credit Card Business and other businesses of the Group amounted to approximately HK$15 million only. As advised by the Directors, amongst the HK$15 million free liquid cash and marketable securities, approximately HK$8 million is marketable securities while the remaining amount of approximately HK$7 million is liquid cash.

Apart from the aforementioned free liquid cash and marketable securities, the Directors have advised us that the Company successfully placed the preference shares of Hai Xia in June 2002 to certain investors independent of the Directors, chief executive and substantial Shareholders of the Group or any of their associates. The net proceeds from such placement amounting to approximately HK$37.2 million making the total cash available to the Credit Card Business amounting to approximately HK$44.2 million. In addition, Hai Xia Finance exercised its option in respect of 30 million shares in Hai Xia on 27th June, 2002, generating a cash inflow for the Company of approximately HK$5.4 million. As stated in the Letter from the Board of the Circular, it is not yet known whether Hai Xia Finance intends to exercise all or any part of the balance of this option. However, Hai Xia Finance will have to exercise the balance of this option in whole or in part, or let it lapse, before the date for the holding of the EGM convened for 31st July, 2002. Further details in respect of the option granted by the Company to Hai Xia Finance are set out under sections 5(iii) and (vii) under the paragraphs headed "Material contracts" in Appendix V to the Circular.

Notwithstanding the overall improvement in the working capital position of the Group as a result of such placement and the limited exercise of the option, and even if Hai Xia Finance exercises its option over the shares in Hai Xia in full or in part, the Directors consider that it is beneficial to the Group to increase the net asset base of the Group and build up additional liquidity for the Credit Card Business through the Subscription Agreement as the pace of development and expansion of the Credit Card Business is expected to be faster after the settlement of the litigation as explained under the sub-section headed "Benefits of the settlement of the Litigation to the Group" above.

It was also stated in the Letter from the Board of the Circular that the Group has disposed certain indirect equity interests in Global Med and Global Med International Limited for a consideration of HK$18 million which will be satisfied by the issue of an unsecured promissory note repayable within one year with no cash receivable upfront. Further details in relation to the disposal of certain indirect equity interests in Global Med and Global Med

International Limited are set out under the sub-section headed "eBanker, Global Med and Global Growth" in the Letter from the Board of the Circular.

In arriving at our view on the benefit of obtaining additional working capital for the Credit Card Business as a result of the Subscription, we have considered the following:

(i) Liquidity reserves for operation of the Credit Card Business

The operation of the Credit Card Business involves certain degree of liquidity risk. The Group, according to the income level and repayment record of an individual, will grant a pre-approved credit limit to a credit card holder. The credit card holder, by using the credit cards, has the right to purchase goods or services in authorized merchants or make cash advances within the pre-approved credit limit. In general, the Group will allow the credit card holder an interest-free credit period up to the maximum of 56 days from the transaction date to settle the outstanding balance. The Group will allow the credit card holder to opt for a full repayment or partial settlement of the outstanding balance. The amount outstanding at the previous statement less the partial settlement is generally referred as "rollover" amount.

The Group, on the other hand, has to settle the amount of spending by the credit card holder with the authorized merchant or cash advances made by the credit card holder through the credit card clearing agent, i.e. MasterCard International, upon receipt of the transfer agent advisement issued by MasterCard International. As advised by the Directors, the transfer agent advisement will usually be received by the Group normally a few days after the transaction. As such, the Group has to bear the liquidity risk arisen as a result of the timing difference of the cash inflow and the cash outflow, which may be a significant amount depending on the value of the transaction and the amount of rollover outstanding balance.

As advised by the Directors, management has regular weekly meeting to discuss the operations of the Credit Card Business, including bad debts level, progress on launching of new cards and accounts receivable collection matters. The management will also closely keep track on the balances and aging of receivables, utilization rate and rollover rate for the purpose of managing the liquidity risk of the Credit Card Business. Notwithstanding the aforesaid measures, liquid cash reserve is critical to the operation of the Credit Card Business in order to lower the liquidity risk from time to time. In addition, the Group will also need to maintain adequate liquid cash as buffer for credit amounts not yet utilized i.e. the maximum available credit limit granted to all card holders less the actual level of spending or cash advances made by the credit card holders.

(ii) Possible rise in charge-off rate

As discussed in sub-section (i) above, the Group is obliged to settle any amount due to the authorized merchants through the credit card clearing agent irrespective of whether the payment has been made by the credit cardholder or not. Given the general increasing trend in charge-off rate of credit card and consumer loan business as discussed in the sub-section headed "Industry environment and prospects of the credit card business" above, the Group therefore has to allow additional cash reserve in the event of further rise in bad debts amount.

(iii) Additional cash buffer required for further expansion of the Credit Card Business

Owing to the settlement mechanism of the Credit Card Business as described in the previous sub-sections, launching of any new credit card will definitely increase the liquidity risk of the Group. Given the fact that the Credit Card Business will expand in a faster pace in the future (as discussed in the sub-section headed "Benefits of the settlement of the Litigation to the Group" above), it is necessary for the Group to secure additional working capital in order to lower the liquidity risk from time to time. Given that (i) there will be no cash receivable upfront from the disposal of certain indirect equity interests in Global Med and Global Med International Limited as explained above; and (ii) the cash inflow to the Group as a result of the exercise of the options by Hai Xia Finance as mentioned in the sub-section headed "Provision of additional working capital for the Credit Card Business" above only accounts for approximately 2.5% of the adjusted unaudited consolidated net tangible asset value immediately before Completion of the Group of approximately HK$216,021,000, we consider that the disposal of the Group's interests in Global Med and Global Med International Limited and the exercise of the options by Hai Xia Finance will not have any material or immediate impact on the working capital position of the Group hence additional working capital is still preferred by the Group in order to cope with the development of the Credit Card Business.

Based on the above, we consider that the Subscription is beneficial to the Group and the Shareholders as a whole in terms of provision of additional working capital for the Credit Card Business.

Alternative ways of financing

Apart from the Subscription, the Directors have also considered other financing alternatives, such as debt financing, share placement and rights issue/open offer.

(i) Debt financing

The finance costs and gearing ratio of the Group will unavoidably be increased if debt financing is used. In particular, given the fact that the Group was making losses for the last five financial years, the Group may not be able to secure debt financing without incurring a relatively higher interest rate. In fact, the Directors advised us that the Company has considered obtaining debt financing but without success. In light of the above, we concur with the Directors' view that debt financing for the required funding is not a preferable alternative.

(ii) Public share placement

Instead of the subscription of new Shares by the Controlling Shareholders, the Directors have considered placement of new Shares to public investors. However, average monthly trading volume of the Shares was low throughout the last six months prior to the date of the Compromise Agreement which made the Company difficult to secure independent investors for a public share placement.

We also noted that the prevailing market price of the Shares is traded below the nominal value of the Shares of HK$0.25 per Share. Since the Company cannot issue new Shares to public investors at a price below the nominal value of the Shares, the Company may need to take steps to reduce the nominal value of the Shares which will ultimately lengthen the share placement timetable. Obviously, the Company may also adopt similar bonus issue mechanism of the Subscription but it is usually difficult to secure a placing agent or public investors to participate in a conditional placement that will take a much longer time to complete and will be conditional upon the outcome of a shareholders' meeting.

Coupled with the loss-making history of the Group throughout the last five financial years, the placing price may inevitably be set at a deep discount to the prevailing market price even if the Company can successfully launch a public share placement. Independent Shareholders may, depending on the level of discount to the prevailing market price of the Shares, suffer the same or even a greater degree of dilution to their existing equity interest in the Company.

Based on the above, we concur with the Directors' view that it is not practicable to satisfy the present funding requirement through a public share placement.

(iii) Rights issue/open offer

To allow the participation of the Independent Shareholders, the Directors have also considered a rights issue or an open offer. However, we consider that a rights issue or an open offer has the following drawbacks as compared to the Subscription:

(a) it will take longer time to complete as compared to the Subscription (on the assumption that a whitewash waiver is required as one of the condition precedents in either cases) because in a rights issue or an open offer, it will normally allow an offer period of at least 14 to 21 days for the shareholders to decide on whether to accept the rights shares or open offer shares. In addition, extra time will also be required for the rights issue or an open offer to become unconditional (usually 2 to 3 days after the closing of the offer) and usually the listed company will only receive the proceeds a few days after the rights issue or an open offer becomes unconditional. In a rights issue, extra time will also be required for the trading of renounceable documents i.e. nil-paid rights entitled by the existing Shareholders;

(b) the subscription price of the new Shares in a rights issue or an open offer will be normally set at a significant discount to the prevailing market price of the Shares; and

(c) a rights issue or an open offer is usually underwritten and will carry certain completion risk due to the "force majeure" clauses contained in the underwriting agreement. Should the rights issue cannot proceed to completion due to the exercise of the "force majeure" right by the underwriters, the listed issuer will not receive any proceeds and may have an adverse impact on the working position of such listed issuers.

In addition, a rights issue or an open offer must be fully underwritten in normal circumstances as required by the Listing Rules. However, the Company may not be able to launch a fully underwritten rights issue or open offer exercise given the loss making history of the Group and the relatively thin trading volume of the Shares as mentioned in paragraphs (a) and (b) above.

Accordingly, we concur with the Directors' view that it is not preferable to satisfy the present funding requirement through a rights issue or an open offer.

Having considered the above factors, we are of the view that the Subscription is a preferable means of financing of the settlement of the Litigation and, at the same time, provide the necessary working capital for the operation and future expansion of the Credit Card Business.

III. THE SUBSCRIPTION

The Effective Subscription Price

As advised by the Directors, the effective subscription price of the 220,000,000 new Shares (consisting 80,000,000 Subscription Shares and 140,000,000 Bonus Shares) pursuant to the Subscription Agreement amounted to approximately HK$0.091 per Share (the "Effective Subscription Price") was arrived at after arm's length negotiations between the Company and the Subscriber with reference to the average of 30 consecutive trading days ended up to and including 10th May, 2002 (the "30-Day Average Price") of approximately HK$0.0784 per Share. The Effective Subscription Price represents a premium of approximately 16.1% over the 30-Day Average Price. We consider that it is common to set the issue price of a share placement with reference to the 10 or 30 days average market prices of the underlying shares to minimise the effect of undue fluctuation of share price in a particular trading day.

The Effective Subscription Price also represents:

(i) a discount of approximately 4.2% to the closing price of the Shares of HK$0.095 per Share as at 10th May, 2002, being the day immediately before the date on which the trading in the Shares was suspended pending the release of the Announcement (the "Closing Price");

(ii) a premium of approximately 3.4% over the average of the closing prices of approximately HK$0.088 per Share for the 10 consecutive trading days ended up to and including 10th May, 2002 (the "10-Day Average Price");

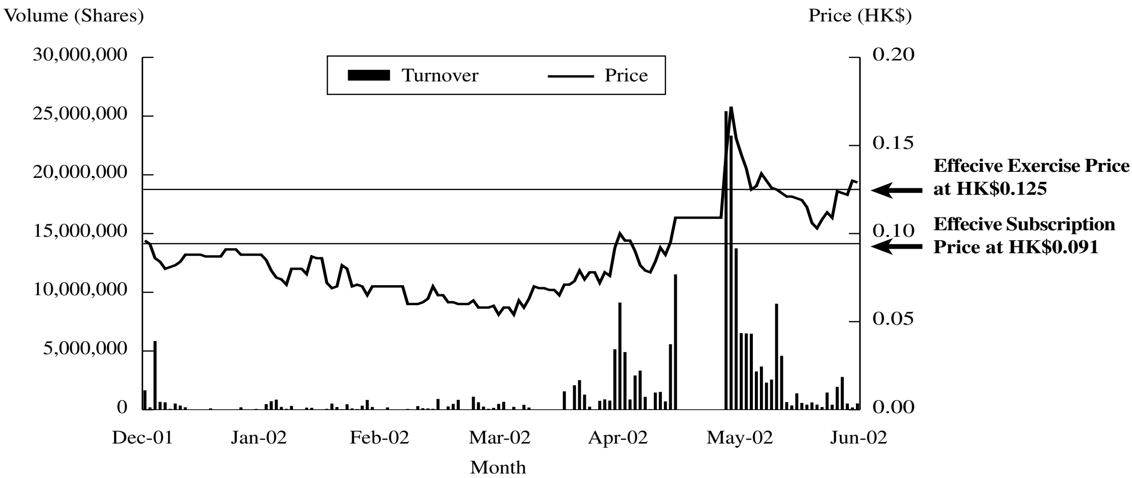
(iii) a premium of approximately 16.1% over the average of the closing prices of approximately HK$0.0784 per Share for the 30 consecutive trading days ended up to and including 10th May, 2002 (the "30-Day Average Price");

(iv) a discount of approximately 29.5% to the closing price of HK$0.129 per Share as at the Latest Practicable Date (the "LPD Price");

(v) a discount of approximately 49.7% to the audited consolidated net tangible asset value of the Group as at 31st March, 2001 of approximately HK$0.181 per Share; and

(vi) a discount of approximately 46.5% to the adjusted unaudited consolidated net tangible asset value immediately before Completion of the Group of approximately HK$0.170 per Share (as shown in the sub-section headed "Net tangible asset value" under the section headed "Financial effects" below).

The following chart sets out the daily trading volume and closing prices of the Shares as quoted on the Stock Exchange during the half-year period commencing from 1st December, 2001 up to and including the Latest Practicable Date (the "Comparison Period"):



Source: Bloomberg

As illustrated above, the Effective Subscription Price was set at a premium to the 30-Day Average Price and was above the trading prices of the Shares most of the time throughout the Comparison Period albeit the fact that it represents a discount of approximately 4.2% and 29.5% to the Closing Price and the LPD Price respectively. Nevertheless, we consider such discounts are acceptable based on the following reasons:

(i) In order to opine on the fairness and reasonableness of the Effective Subscription Price, we have reviewed the following transactions undertaken by companies listed on the Stock Exchange in relation to issues of new shares which involved whitewash waiver applications from 1st January, 2002 to 31st May, 2002 (the "Comparable Transactions") for the purpose of evaluating the reasonableness of the differences between the Effective Subscription Price and the Closing Price.

	Announcement Date	Issuer	Issue price *HK$ per share*	Closing price immediately prior to announcement *HK$ per share*	Discount *in %*
1	23rd January, 2002	Dransfield Holdings Limited	0.020	0.040	50.00%
2	8th February, 2002	Ananda Wing On Travel (Holdings) Limited	0.027	0.044	38.64%
3	15th February, 2002	CIL Holdings Limited	0.010	0.500	98.00%
4	2nd May, 2002	South China Information and Technology Limited	0.022	1.000	97.80%
5	23rd May, 2002	Dailywin Group Limited	0.010	0.163	93.87%
			Average		**75.66%**

Based on the above Comparable Transactions, we noted that the issue prices of the shares in all five transactions were set at a discount to the closing prices of the respective shares immediately prior to the respective announcements of those transactions. Such discounts ranged from approximately 38.7% to 98.0%, with an average of approximately 75.7%. We found that the discount of the Effective Subscription Price to the Closing Price of 4.2% is below the range of the discounts from approximately 38.7% to 98.0% for the Comparable Transactions and is not substantial as compared to the average of the discounts of approximately 75.7% for the Comparable Transactions.

(ii) We noted that the closing prices of the Shares were higher than the Effective Subscription during the period from 28th May, 2002 (the date on which the Announcement was published and the trading in the Shares was resumed) to the Latest Practicable Date (the "Exceptional Period"). We also noted that the closing prices of the Shares fluctuated significantly between HK$0.103 per Share and HK$0.172 per Share during the Exceptional Period. Such increase may be due to general market fluctuations and the speculation about the entering into of the Subscription Agreement and the Compromise Agreement. In determining the fairness and reasonableness of the terms of the Subscription Agreement, the Independent Shareholders can, of course, take into account the prevailing market prices of the Shares. However, the Independent Shareholders are reminded that should the Subscription Agreement and the Compromise Agreement not proceed to completion, the benefits as a result of the settlement of the Litigation and having additional working capital for the Credit Card Business will not be materialised.

The Bonus Warrants

Details about the effective exercise price of the Bonus Warrants (the "Effective Exercise Price") of HK$0.125 per Share are explained under the section headed Bonus Warrants and Bonus Shares in the Letter from the Board of the Circular.

As stated in the section headed "Reasons for the Subscription Agreement" in the Letter from the Board of the Circular, the Directors consider that the Bonus Warrants form part of the overall package of the Subscription and the Bonus Warrants carries little or no theoretical value. Since the premium of the Effective Exercise Price of HK$0.125 per Share over the 30-Day Average Price of approximately HK$0.0784 per Share was over 50% at the time the Subscription Agreement was entered into, we consider that the intrinsic value attributable to the Bonus Warrants is not significant.

The Effective Exercise Price of HK$0.125 per Share represents:

(i) a premium of approximately 31.6% over the Closing Price of HK$0.095 per Share;

(ii) a premium of approximately 42.0% over the 10-Day Average Price of HK$0.088 per Share;

(iii) a premium of approximately 59.4% over the 30-Day Average Price of HK$0.0784 per Share;

(iv) a discount of approximately 3.1% to the LPD Price of HK$0.129 per Share;

(v) a discount of approximately 30.9% to the audited consolidated net tangible asset value of the Group as at 31st March, 2001 of approximately HK$0.181 per Share; and

(vi) a discount of approximately 26.5% to the adjusted unaudited consolidated net tangible asset value immediately before Completion of the Group of approximately HK$0.170 per Share (as shown in the sub-section headed "Net tangible asset value" under the section headed "Financial effects" below).

As illustrated in the chart in the sub-section headed "The Effective Subscription Price" above, the Shares were traded below the Effective Exercise Price most of the time during the Comparison Period except for certain trading days during the Exceptional Period. Given that the Effective Exercise Price of HK$0.125 per Share represents a substantial premium of approximately 37.4% over the Effective Subscription Price of HK$0.091 per Share, we consider that the Effective Exercise Price of HK$0.125 per Share for the Bonus Warrants is acceptable.

IV. FINANCIAL EFFECTS

Shareholding structure

The Controlling Shareholders together are currently interested in 417,423,003 Shares, representing approximately 32.91% of the voting rights of the Company as at the Latest Practicable Date. After Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants, the voting rights of the Company held by the Controlling Shareholders will increase to approximately 42.83%. Upon the exercise in full of the subscription rights attaching to the Bonus Warrants, the voting rights of the Company held by the Controlling Shareholders will further increase to approximately 48.38%. The shareholding structures of the Company as at the Latest Practicable Date and after Completion and the exercise in full of the subscription rights attaching to the Bonus Warrants are illustrated in the following table:

	As at the Latest Practicable Date		After Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants		After Completion and the exercise in full of the subscription rights attaching to the Bonus Warrants	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Controlling Shareholders	417,423,003	32.91	637,423,003	42.83	797,423,003	48.38
A Director	280,000	0.02	280,000	0.02	280,000	0.02
Public	850,414,962	67.07	850,414,962	57.15	850,414,962	51.60
Total	1,268,117,965	100.0	1,488,117,965	100.0	1,648,117,965	100.0

As demonstrated above, the issue of the 220,000,000 new Shares pursuant to the Subscription Agreement will have a dilution effect of approximately 14.8% on the equity interests of the Independent Shareholders. Moreover, the issue of the 160,000,000 new Shares under the Bonus Warrants will have a further dilution effect of approximately 9.7%

on the equity interests of the Independent Shareholders. Notwithstanding such dilution effects, we consider that the Subscription is fair and reasonable so far as the interests of the Independent Shareholders are concerned based on the following reasons:

(i) part of the proceeds from the Subscription will be used to finance the settlement of the Litigation and the balance will be used for provision of additional working capital for the development and expansion of the Credit Card Business (as explained in the section headed "Reasons for and benefits of the Subscription" above);

(ii) as compared to debt financing, the Subscription has the advantage that there will be no adverse impact on the gearing and working capital position of the Group and as compared to a public placement, the interests of the Independent Shareholders will be diluted also; and

(iii) the Subscription will strengthen the asset base of the Group (as explained in the sub-section headed "Net tangible asset value" below).

Net tangible asset value

Based on the section headed "Pro forma statement of unaudited adjusted consolidated net tangible asset value" in Appendix I to the Circular, we summarize the effect of the Subscription on the consolidated net tangible asset value of the Group as follows:

		Per Share
	HK$'000	*HK$*
Adjusted unaudited consolidated net tangible asset value immediately before Completion	216,021	0.170 *(Note 1)*
Add: Net proceeds from the Subscription	18,000	
Adjusted unaudited consolidated net tangible asset value immediately after Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants	234,021	0.157 *(Note 2)*
Add: Net proceeds from the exercise in full of the subscription rights attaching to the Bonus Warrants	20,000	
Adjusted unaudited consolidated net tangible asset value immediately after Completion and the exercise in full of the subscription rights attaching to the Bonus Warrants	254,021	0.154 *(Note 3)*

Notes:

1. Based on 1,268,117,965 Shares in issue as at the Latest Practicable Date.

2. Based on 1,488,117,965 Shares in issue after taking into account the 220,000,000 new Shares (consisting of 80,000,000 Subscription Shares and 140,000,000 Bonus Shares) to be issued upon Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants.

3. Based on 1,648,117,965 Shares in issue after taking into account the 220,000,000 new Shares (consisting of 80,000,000 Subscription Shares and 140,000,000 Bonus Shares) to be issued upon Completion and the 160,000,000 new Shares to be issued upon exercise in full of the subscription rights attaching to the Bonus Warrants.

As demonstrated above, the adjusted unaudited consolidated net tangible asset value of the Group will increase by approximately 8.3% immediately after Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants. Upon full exercise of the subscription rights attaching to the Bonus Warrants, the adjusted unaudited consolidated net tangible asset value of the Group will further increase by approximately 8.5%.

However, on a per Share basis, the adjusted unaudited consolidated net tangible asset value of the Group per Share will decrease by approximately 7.6% immediately after Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants. After the exercise in full of the subscription rights attaching to the Bonus Warrants, the adjusted unaudited consolidated net tangible asset value of the Group per Share will further decrease by approximately 1.9%. Such decline in net tangible asset value per Share is due to the discount of approximately 46.5% of the Effective Subscription Price to the adjusted unaudited consolidated net tangible asset value of the Group immediately before Completion of approximately HK$0.170 per Share. As explained in the sub-sections headed "The Effective Subscription Price" and "The Bonus Warrants" under the section headed "The Subscription" above, the Effective Subscription Price and the Effective Exercise Price were determined with reference to the prevailing market price of the Shares on the date when the Subscription Agreement was entered into and are considered to be reasonable. Moreover, given the fact that the Shares have been traded significantly below the adjusted unaudited consolidated net tangible asset value immediately before Completion of the Group of approximately HK$0.170 per Share most of the time throughout the Comparison Period, it is inappropriate to set the Effective Subscription Price and the Effective Exercise Price at a premium to the adjusted unaudited consolidated net tangible asset value immediately before Completion of the Group of approximately HK$0.170 per Share. In addition, similar impairment on the consolidated net tangible asset value per Share will be resulted if other forms of equity financing, such as public share placement, a rights issue or an open offer, are being used by the Group. As such, we consider that the decline in consolidated net tangible asset value per Share is inevitable.

Gearing

Based on the total borrowings of the Group as at 30th September, 2001, the gearing ratio (the ratio of total borrowings to Shareholders' equity) was approximately 2.13% immediately before Completion. Immediately after the Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants, the gearing ratio calculated on the same basis will decrease to 1.97%. After the exercise in full of the subscription rights attaching to the Bonus Warrants, the gearing ratio will further decrease to 1.81%. We consider that such improvement in gearing ratio of the Group as a result of the Completion and the full exercise of the subscription rights attaching to the Bonus Warrants is beneficial to the Group and the Shareholders as a whole.

Working capital

As mentioned in the section headed "Reasons for and benefits of the Subscription" above, the Group is able to obtain additional working capital of approximately HK$11.5 million (being proceeds from the Subscription less the amount assigned for the settlement of the Litigation) for the development and future expansion of the Credit Card Business upon Completion. Such additional working capital enables the Group to lower the liquidity risk from time to time (as explained in the sub-section headed "Provision of additional working capital for the Credit Card Business"). Upon full exercise of the subscription rights attaching to the Bonus Warrants, the Group will be able to obtain further funding of approximately HK$20 million which, as advised by the Directors, will be used for additional working capital for future expansion of the Credit Card Business. We consider that further funding for the expansion of the Credit Card Business is beneficial to the Group and the Shareholders as a whole given the Credit Card Business has been performing well as discussed in the sub-section headed "Results of operations of the Group" above.

Conclusion

Taking into account of the benefits of the settlement of the Litigation and as a result of having additional working capital position for the Credit Card Business of the Group as explained in the section headed "Reasons for and benefits of the Subscription" above and the financial impacts on net tangible asset value and gearing of the Group, we are of the view that the terms of the Subscription are fair and reasonable so far as the interests of the Independent Shareholders are concerned and the Subscription is in the interest of the Group and the Independent Shareholders as a whole.

V. WHITEWASH WAIVER

The Controlling Shareholders together are currently interested in 417,423,003 Shares, representing approximately 32.91% of the voting rights of the Company as at the Latest Practicable Date. After Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants, the voting rights of the Company held by the Controlling Shareholders in the Company will increase to 42.83%. Upon the exercise in full of the subscription rights attaching to the Bonus Warrants, the voting rights of the Company held by the Controlling Shareholders will further increase to approximately 48.38%. Under Rule 26.6 of the Takeovers Code, where a person, or two or more persons acting in concert, holds 30% or more of the voting rights of a company but less than 35% of such voting rights immediately prior to implementation of Rule 26.6 on 19th October, 2001 then, for so long as such holding remains in this range and until 10 years after that date:

(a) the Takeovers Code (other than Rule 26.6) shall be interpreted and applied as if the 30% trigger in Rule 26.1 (a) and (b) was 35% for such person or persons; and

(b) such person or persons are not subject to the 2% creeper under Rule 26.1(c) and (d).

Given the Controlling Shareholders together owned approximately 32.91% of the voting rights of the Company prior to the implementation of Rule 26.6 on 19th October, 2001, the Controlling Shareholders will be obliged to make a mandatory general offer for all securities of the Company other than those already owned or agreed to be subscribed for by them upon Completion or full exercise of the subscription rights attaching to the Bonus Warrants since the Controlling Shareholders' interest in the voting rights of the Company will be increased to over 35%.

The Controlling Shareholders have made an application to the Executive for the Whitewash Waiver and the Executive has indicated it will grant the Whitewash Waiver subject to, among other things, the approval by the Independent Shareholders by way of a poll at the EGM.

We consider that it is fair and reasonable for, and in the interests of, the Independent Shareholders to approve the Whitewash Waiver in light of the following reasons:

(i) as mentioned above, we are of the view that the terms of the Subscription are fair and reasonable and that the Subscription is in the interest of the Group and the Independent Shareholders as a whole. As the Completion is conditional upon, among other things, the Whitewash Waiver being approved by the Independent Shareholders, it is in the interests of the Independent Shareholders to approve the Whitewash Waiver in order to facilitate the Completion; and

(ii) the status of the Controlling Shareholders as the single largest shareholders of the Company will remain unchanged after the Completion. The Directors also advised us that there would be no change in either the management or the principal business of the Group because of the Subscription. As such, we consider that the Subscription will not affect the continuity of shareholding control, management and business of the Group.

Given the approval of the Whitewash Waiver by the SFC and the Independent Shareholders are conditions precedent to the Subscription Agreement, Independent Shareholders should be reminded that there will be no general offer for the securities other than those already owned or agreed to be subscribed by the Controlling Shareholders irrespective of whether the Whitewash Waiver is granted by the Executive or not. As such, they have not forgone any opportunities to tender their Shares to the Controlling Shareholders by approving the Whitewash Waiver. However, if the Independent Shareholders do not approve the Whitewash Waiver, the benefits of the Subscription will not be materialised.

VI. CONCLUSION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that:

(i) the Subscription is a preferable fund raising alternative available for the purposes of the settlement of the Litigation and the provision of additional working capital of the Credit Card Business; and

(ii) the terms of the Subscription Agreement and the Whitewash Waiver are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Group as a whole.

Taking the Subscription and the Whitewash Waiver as a whole, we consider that it is fair and reasonable for and in the interests of the Independent Shareholders to approve the Subscription Agreement and the Whitewash Waiver. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions which will be proposed at the EGM to approve the Subscription Agreement and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited
Derek C. O Chan **Marcus Ho**
Deputy Managing Director *Director*

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following Completion and full exercise of the Bonus Warrants are as follows:

Authorised:		*HK$*
2,000,000,000	Shares as at the Latest Practicable Date	500,000,000.00
Issued and fully paid:		
1,268,117,965	Shares in issue as at the Latest Practicable Date	317,029,491.25
80,000,000	Subscription Shares	20,000,000.00
140,000,000	Bonus Shares issued upon Completion	35,000,000.00
80,000,000	Bonus Shares issued upon full exercise of the Bonus Warrants	20,000,000.00
80,000,000	Shares to be issued pursuant to full exercise of the Bonus Warrants	20,000,000.00
1,648,117,965		412,029,491.25

All the Shares in issue and to be issued rank and will rank pari passu in all respects with each other as regards dividends, voting and return of capital. There has been no changes to the authorised and issued share capital of the Company since 31st March, 2001 (being the end of the last financial year of the Company) up to the Latest Practicable Date.

Save for the proposed issue of the Bonus Warrants and the options granted under the Company's employee share option scheme as disclosed in this circular, the Company has no options, warrants and conversion rights convertible into Shares. Save for the securities to be issued under the Subscription Agreement as disclosed herein, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

Share Option Scheme

Details of options which have been granted to eligible employees pursuant to the Company's share option scheme dated 28th September, 1995 and which have not lapsed or expired as at the Latest Practicable Date are as follows:

Date of grant	Exercise price per Share *HK$*	Exercise period	Number of Shares subject to outstanding options
22.4.1996	0.4025	22.4.1996 – 21.4.2006	3,071,739
15.5.1997	0.4512	15.5.1997 – 14.5.2007	15,600,000
26.10.1997	0.3064	26.10.1997 – 25.10.2007	60,800,000

2. FIVE YEAR SUMMARY

	For the year ended 31st March,				
	2001	**2000**	**1999**	**1998**	**1997**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Turnover	67,621	56,045	40,288	172,297	28,155
Operating loss excluding exceptional items	(100,439)	(33,317)	(21,703)	(28,480)	(16,102)
Exceptional items	–	–	22,153	(126,872)	49
Extraordinary items	–	–	–	–	–
Share of results of associates	–	–	(29,823)	(29,448)	1,761
Loss before taxation	(100,439)	(33,317)	(29,373)	(184,800)	(14,292)
Taxation	610	(1,326)	(4,253)	773	(208)
Loss before minority interests	(99,829)	(34,643)	(33,626)	(184,027)	(14,500)
Minority interests	–	838	(703)	2,171	971
Net loss for the year	(99,829)	(33,805)	(34,329)	(181,856)	(13,529)
Dividends	–	–	–	–	–
	Cents	*Cents*	*Cents*	*Cents*	*Cents*
Loss per share – basic	(7.87)	(2.70)	(2.75)	(17.58)	(3.37)
Dividend per Share	–	–	–	–	–

	As at 31st March,				
	2001	**2000**	**1999**	**1998**	**1997**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	318,270	356,679	382,073	434,603	212,837
Total liabilities	(89,155)	(30,147)	(24,542)	(37,484)	(76,672)
Minority interests	–	–	(838)	(135)	(2,639)
Shareholders' funds	229,115	326,532	356,693	396,984	133,526

Note: The above financial summary prior to 1998 has not been adjusted to take into account the effect on the adoption of the Statement of Standard Accounting Practice 24 "Accounting for investments in securities" issued by the Hong Kong Society of Accountants as the directors considered that it is not practicable to do so.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss account of the Group for the two years ended 31st March, 2001, the audited consolidated balance of the Group as at 31st March, 2001, and 31st March, 2000 together with accompanying notes extracted from the audited accounts of the Company:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
Turnover	3	67,621	56,045
Cost of sales		(35,745)	(14,847)
Gross profit		31,876	41,198
Other revenue	4	12,887	3,212
Distribution costs		(3,117)	(5,194)
Administrative expenses		(67,790)	(47,531)
Other operating expenses		(2,058)	(15,024)
Net impairment loss on investments in securities and properties	5	(57,847)	(7,331)
Loss from operations	6	(86,049)	(30,670)
Net loss on investments in a subsidiary and associates	7	(5,327)	(2,009)
Finance costs	8	(9,063)	(638)
Loss before taxation		(100,439)	(33,317)
Taxation	10	610	(1,326)
Net loss before minority interests		(99,829)	(34,643)
Minority interests		–	838
Net loss for the year	11	(99,829)	(33,805)
Dividends		–	–
Loss per share – basic	12	(7.87 cents)	(2.70 cents)
Dividend per Share		–	–

BALANCE SHEETS
At 31st March, 2001

		THE GROUP		THE COMPANY	
		2001	**2000**	**2001**	**2000**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Non-Current Assets					
Investment properties	*13*	18,755	26,017	–	–
Property, plant and equipment	*14*	75,596	22,766	620	809
Investments in subsidiaries	*15*	–	–	85,600	67,852
Interests in associates	*16*	–	–	–	–
Properties under development for sale	*17*	–	43,100	–	–
Investments in securities	*18*	34,599	65,770	3,883	3,883
Amounts due from subsidiaries	*19*	–	–	105,661	246,768
Loans receivable – due after one year	*20*	5,218	2,623	–	–
Pledged bank deposits	*40*	4,023	–	–	–
		138,191	160,276	195,764	319,312
Current Assets					
Inventories	*21*	309	505	5	5
Properties held for sale	*22*	79	79	79	79
Trade and other receivables	*23*	141,609	32,724	4,926	6,502
Amounts due from associates	*24*	189	204	62	67
Loans receivable – due within one year	*20*	1,027	4,263	–	1,035
Investments in securities	*18*	11,403	82,131	7	–
Pledged bank deposits	*40*	1,051	2,020	–	–
Bank balances and cash		24,412	74,477	7,920	32,645
		180,079	196,403	12,999	40,333
Total Assets		318,270	356,679	208,763	359,645

		THE GROUP		THE COMPANY	
		2001	2000	2001	2000
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Equity And Liabilities					
Capital And Reserves					
Share capital	*25*	317,029	317,028	317,029	317,028
Reserves	*28*	(87,914)	9,504	(136,250)	3,309
		229,115	326,532	180,779	320,337
Non-Current Liabilities					
Borrowings	*29*	4,402	5,750	–	–
Amounts due to associates	*30*	1,679	1,700	1,364	1,364
Amounts due to subsidiaries	*31*	–	–	23,577	22,796
Deferred taxation	*32*	1,014	1,626	–	–
		7,095	9,076	24,941	24,160
Current Liabilities					
Trade and other payables	*33*	36,785	19,838	3,017	14,998
Amount due to an associate	*30*	44,470	–	–	–
Borrowings	*29*	428	755	26	150
Taxation		377	478	–	–
		82,060	21,071	3,043	15,148
Total Equity And Liabilities		318,270	356,679	208,763	359,645

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st March, 2001

	2001	2000
	HK$'000	*HK$'000*
Exchange differences arising on translation of overseas operations not recognised in the consolidated income statement	(71)	(231)
Net loss for the year	(99,829)	(33,805)
Total recognised losses	(99,900)	(34,036)
Eliminated against goodwill reserve arising on acquisition of additional interest in a subsidiary	(240)	(570)
Credited to goodwill reserve arising on acquisition of subsidiaries	2,722	–
	(97,418)	(34,606)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	34	(62,012)	7,938
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(563)	(638)
Interest received		3,477	–
NET CASH INFLOW (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		2,914	(638)
TAXATION			
Hong Kong Profits Tax paid		(103)	(1,303)
INVESTING ACTIVITIES			
Purchase of subsidiaries (net of cash and cash equivalents acquired)	36	8,773	–
Deposit paid for the acquisition of subsidiaries		–	(17,522)
Purchase of investment properties		–	(2,003)
Acquisition of additional interest in a subsidiary		(240)	(570)
Purchase of property, plant and equipment		(6,632)	(233)
Advances to associates		(184)	(11)
Proceeds from disposal of interest in a subsidiary		–	4,529
Proceeds from disposal of property, plant and equipment		15	139
Proceeds from disposal of investment properties		7,705	–
Decrease in mortgage loans		209	115
Decrease in pledged bank deposits		746	68
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		10,392	(15,488)
NET CASH OUTFLOW BEFORE FINANCING		(48,809)	(9,491)

	Notes	2001 HK$'000	2000 HK$'000
FINANCING	37		
Proceeds from issue of ordinary shares		1	4,445
Repayment of notes payable		(4,648)	(2,443)
Repayment of mortgage loans		(333)	(56)
New mortgage loans raised		3,885	1,307
NET CASH (OUTFLOW) INFLOW FROM FINANCING		(1,095)	3,253
DECREASE IN CASH AND CASH EQUIVALENTS		(49,904)	(6,238)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		74,289	80,527
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		24,385	74,289
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		24,412	74,477
Bank overdrafts		(27)	(188)
		24,385	74,289

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. Its subsidiaries are principally engaged in investment holding, property investment and development, securities investment and credit card business.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements has been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of the 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 intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries and associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

Revenue recognition

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

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

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

Interest income from credit card receivables is recognised in the income statement on an accrual basis, except where a debt becomes doubtful, in which case recognition of interest income is suspended until it is realised on a cash basis.

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

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

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

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any impairment losses recognised.

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 based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On 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 in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment, other than properties held for development, are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Certain properties held for development are carried at a valuation at 31st March, 1995. Advantage has been taken of the transitional relief provided by paragraph 72 of the Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make regular revaluations of the Group's land and buildings which had been carried out at revalued amounts prior to 30th September, 1995 and, accordingly, no further revaluation of properties held for development is carried out. The surplus arising on revaluation of land and buildings was credited to the revaluation reserve. Any future decrease in value of these assets will be charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of the asset. On the sale or retirement of such assets, the attributable revaluation surplus will be transferred to retained profits.

No depreciation is provided on properties held for development.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, on the following bases and at the following rates per annum:

Leasehold land	Over the remaining terms of the leases
Buildings	2% on straight line method
Leasehold improvements	Over the term of the lease
Furniture, fixtures and motor vehicles	20%-25% on reducing balance method

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes borrowing cost, professional fees and other direct costs attributable to such properties. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling.

Capitalisation of borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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 net profit or loss for the period.

Inventories

Inventories, which represent goods held for resale and premium items for card holders, are stated at the lower of cost and net realisable value. Cost, which comprises, all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant leases terms.

Foreign currencies

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

On consolidation, the financial statements of overseas operations which are denominated in foreign currencies are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

3. TURNOVER AND SEGMENTAL INFORMATION

The Group's turnover and contribution to loss before taxation for the year ended 31st March, 2001, analysed by principal activity and by geographical market, are as follows:

	Turnover		Contribution to loss before taxation	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By principal activity:				
Credit card operations	42,192	–	(1,091)	–
Securities trading and investments	6,412	27,031	(12,178)	(18,364)
Treasury investment	13,506	17,970	(31,494)	17,970
Retailing of fashion apparel and accessories	3,586	8,907	1,817	5,917
Property investment	1,925	2,137	1,398	2,021
	67,621	56,045	(41,548)	7,544
Unallocated corporate expenses			(49,828)	(40,223)
Finance costs			(9,063)	(638)
Loss before taxation			(100,439)	(33,317)

Included in credit card operations for the year are credit card service income and credit card interest income of approximately HK$4,159,000 and HK$38,033,000, respectively.

	Turnover		Contribution to loss before taxation	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By geographical market:				
Hong Kong	65,967	49,874	(42,335)	2,913
North America	1,437	5,574	570	4,034
South East Asia	217	597	217	597
	67,621	56,045	(41,548)	7,544
Unallocated corporate expenses			(49,828)	(40,223)
Finance costs			(9,063)	(638)
Loss before taxation			(100,439)	(33,317)

4. OTHER REVENUE

	2001	**2000**
	HK$'000	*HK$'000*
Included in other revenue are:		
Option fees recognised *(note 33)*	9,060	–
Gain on disposal of investment properties	931	–
Other income	2,896	3,212
	12,887	3,212

5. NET IMPAIRMENT LOSS ON INVESTMENTS IN SECURITIES AND PROPERTIES

	2001	**2000**
	HK$'000	*HK$'000*
Impairment loss recognised in respect of properties under development for sale	–	(7,300)
(Impairment loss recognised) reversal of impairment loss in respect of held-to-maturity securities	(45,000)	4,864
Unrealised loss on other investments	(12,609)	(3,930)
Deficit on revaluation of investment properties	(238)	(965)
	(57,847)	(7,331)

6. LOSS FROM OPERATIONS

	2001	2000
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration		
– Current year	1,734	1,245
– Underprovision in respect of prior year	61	52
Depreciation	2,387	1,404
Loss on disposal of property, plant and equipment	153	76
Operating lease rentals in respect of		
– rented premises	5,024	2,892
– leased assets	38	12
Provision for bad and doubtful debt	26,913	6,618
Staff costs including directors' emoluments *(note)*	47,395	37,180
and crediting:		
Dividend income	956	935
Gross rental income from investment properties less outgoings of HK$490,000 (2000: HK$414,000)	1,435	1,723

Note: Included in staff costs are retirement benefit scheme contributions of approximately HK$673,000 (2000: HK$504,000), net of forfeited contributions of HK$Nil (2000: HK$Nil).

7. NET LOSS ON INVESTMENTS IN A SUBSIDIARY AND ASSOCIATES

	2001	2000
	HK$'000	*HK$'000*
Impairment loss recognised in respect of interest in/amount due from an associate	(5,327)	(6,538)
Gain on disposal of interests in a subsidiary and associates	–	4,529
	(5,327)	(2,009)

8. FINANCE COSTS

	2001	2000
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	370	3
Amount due to an associate	8,500	–
Other borrowings not wholly repayable within five years	193	635
	9,063	638

No interest was capitalised by the Group during the year.

9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

	2001	2000
	HK$'000	*HK$'000*
The directors' emoluments are analysed as follows:		
Fees:		
Executive	–	–
Non-executive	402	340
Independent non-executive	540	540
Other emoluments paid to executive directors:		
Salaries and other benefits	30,451	29,661
Retirement benefit scheme contribution	332	–
Other emoluments paid to alternate directors:		
Salaries and other benefits	1,283	–
Retirement benefit scheme contribution	78	–
Total emoluments	33,086	30,541

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
HK$Nil up to HK$1,000,000	10	11
HK$1,000,001 to HK$1,500,000	1	–
HK$4,000,001 to HK$5,500,000	1	1
HK$22,500,001 to HK$25,000,000	1	1

Highest paid employees

The six highest paid individuals of the Group included four directors (2000: three), details of whose emoluments are set out above. The emoluments of the remaining two (2000: three) highest paid employees, other than directors of the Company, are as follows:

	2001	2000
	HK$'000	*HK$'000*
Salaries and other benefits	1,359	1,759
Retirement benefit scheme contributions	18	116
	1,377	1,875

The emoluments of these employees are within the following bands:

	2001 Number of employees	2000 Number of employees
HK$Nil up to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	–	1
	2	3

10. TAXATION

	2001	2000
	HK$'000	*HK$'000*
The tax credit (charge) comprises:		
Hong Kong Profits Tax		
– Current year	–	(472)
– Underprovision in respect of prior year	(2)	(135)
– Deferred taxation *(note 32)*	612	(719)
	610	(1,326)

No provision for Hong Kong Profits Tax has been made in the financial statements as there is no assessable profit for the year. Hong Kong Profits Tax in 2000 was calculated at 16% of the estimated assessable profit of the year.

11. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK$99,829,000 (2000: HK$33,805,000), a loss of HK$139,559,000 (2000: HK$38,258,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK$99,829,000 (2000: HK$33,805,000) and on the weighted average number of 1,268,116,451 (2000: 1,251,860,333) ordinary shares in issue during the year.

No diluted loss per share is presented as the exercise of potential dilutive ordinary shares would result in reduction in loss per share in both years.

13. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
VALUATION	
At 1st April, 2000	26,017
Disposal	(6,774)
Exchange realignment	(250)
Deficit arising on revaluation	(238)
At 31st March, 2001	18,755

The market value of investment properties shown above comprises:

	2001	2000
	HK$'000	*HK$'000*
Long lease in Hong Kong	13,300	13,300
Medium-term leases in Hong Kong	2,330	2,370
Freehold outside Hong Kong	3,125	10,347
	18,755	26,017

The investment properties of the Group at SUP Tower located at No.4 Mercury Street, Nos.75-83 King's Road, North Point, Hong Kong were revalued at 31st March, 2001 on an open market existing use basis by Sallmanns (Far East) Limited, an independent firm of professional valuers, at a value of HK$13,300,000. No surplus or deficit arose on the revaluation at 31st March, 2001.

The investment properties of the Group at No.105 How Ming Street, Kwun Tong, Hong Kong were revalued at 31st March, 2001 on an open market value basis by Sallmanns (Far East) Limited, at a value of HK$2,330,000. A deficit arising on revaluation of HK$40,000 is charged to the income statement.

The investment properties of the Group at No. B102 and B503-4821 53rd Street, Delta, British Columbia, Canada and No. 1281, Alberni Street, Vancouver, British Columbia, Canada were revalued at 31st March, 2001 on an open market value basis by Johnston, Ross & Cheng Ltd., an independent firm of professional valuers, at value of HK$3,125,000 (CAD 630,000). A deficit arising on revaluation of HK$198,000 (CAD 40,000) is charged to the consolidated income statement.

The Group's investment properties are held for rental purposes under operating leases.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	**Leasehold improvements**	**Furniture, fixtures and motor vehicles**	**Properties held for development**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
COST OR VALUATION					
At 1st April, 2000	17,435	1,474	6,360	4,271	29,540
On acquisition of subsidiaries	–	3,266	12,118	–	15,384
Exchange realignment	–	–	–	9	9
Reclassification	–	–	–	43,100	43,100
Additions	6,474	–	158	–	6,632
Disposals	–	(1,474)	(307)	–	(1,781)
At 31st March, 2001	23,909	3,266	18,329	47,380	92,884
Comprising:					
At cost	23,909	3,266	18,329	43,176	88,680
At professional valuation – 1995	–	–	–	4,204	4,204
	23,909	3,266	18,329	47,380	92,884
DEPRECIATION					
At 1st April, 2000	348	1,471	4,955	–	6,774
On acquisition of subsidiaries	–	1,279	8,461	–	9,740
Provided for the year	280	548	1,559	–	2,387
Eliminated on disposals	–	(1,471)	(142)	–	(1,613)
At 31st March, 2001	628	1,827	14,833	–	17,288
NET BOOK VALUES					
At 31st March, 2001	23,281	1,439	3,496	47,380	75,596
At 31st March, 2000	17,087	3	1,405	4,271	22,766

The net book value of properties shown above comprises:

	Land and buildings		**Properties held for development**	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Medium-term leases in Hong Kong	16,807	17,087	43,176	76
Medium-term leases outside Hong Kong	6,474	–	–	–
Freehold outside Hong Kong	–	–	4,204	4,195
	23,281	17,087	47,380	4,271

Included in properties held for development is net interest capitalised of HK$6,724,000.

The properties held for development of the Group consist of several parcels of vacant freehold land at the City of Desert Hot Springs, Riverside County, California, U.S.A. They were revalued at 31st March, 1995 on an open market value basis by Amy J. Wood/Clem Demus at a value of approximately HK$4,204,000 (US$540,000). Had the properties held for development not been revalued and carried at cost, the carrying value of the properties held for development would have been stated at approximately HK$6,923,000 (2000: HK$6,908,000).

	Leasehold improvements	**Furniture, fixtures and motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At 1st April, 2000	1,446	2,011	3,457
Disposals	(1,446)	(21)	(1,467)
At 31st March, 2001	–	1,990	1,990
DEPRECIATION			
At 1st April, 2000	1,446	1,202	2,648
Provided for the year	–	181	181
Eliminated on disposals	(1,446)	(13)	(1,459)
At 31st March, 2001	–	1,370	1,370
NET BOOK VALUES			
At 31st March, 2001	–	620	620
At 31st March, 2000	–	809	809

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001	**2000**
	HK$'000	*HK$'000*
Unlisted shares, at cost	219,451	163,079
Less: Impairment losses recognised	(133,851)	(95,227)
	85,600	67,852

Particulars of subsidiaries at 31st March, 2001 are set out in note 44.

16. INTERESTS IN ASSOCIATES

	THE GROUP		**THE COMPANY**	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	–	–	5,869	5,869
Less: Impairment losses recognised	–	–	(5,869)	(5,869)
Share of net assets	–	–	–	–
	–	–	–	–

Particulars of the Group's principal associate at 31st March, 2001 are set out in note 45.

17. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP 2001 HK$'000	2000 HK$'000
Long lease in Hong Kong	–	25,600
Medium-term lease in Hong Kong	43,100	17,500
	43,100	43,100
Reclassified to properties held for development	(43,100)	–
	–	43,100

Included in properties under development for sale was net interest capitalised of HK$6,724,000.

18. INVESTMENTS IN SECURITIES

THE GROUP

	Held to maturity 2001 HK$'000	2000 HK$'000	Investment securities 2001 HK$'000	2000 HK$'000	Other investments 2001 HK$'000	2000 HK$'000	Total 2001 HK$'000	2000 HK$'000
Equity securities:								
Listed	–	–	3,883	3,882	10,358	27,118	14,241	31,000
Unlisted	–	–	3,883	3,883	–	–	3,883	3,883
	–	–	7,766	7,765	10,358	27,118	18,124	34,883
Debt securities:								
Listed	–	–	–	–	1,045	3,389	1,045	3,389
Unlisted	25,408	109,629	1,425	–	–	–	26,833	109,629
	25,408	109,629	1,425	–	1,045	3,389	27,878	113,018
Total securities:								
Listed	–	–	3,883	3,882	11,403	30,507	15,286	34,389
Unlisted	25,408	109,629	5,308	3,883	–	–	30,716	113,512
	25,408	109,629	9,191	7,765	11,403	30,507	46,002	147,901
Market value of listed securities	–	–	10,706	38,845	11,403	30,507	22,109	69,352
Carrying amount analysed for reporting purposes as:								
Current	–	51,624	–	–	11,403	30,507	11,403	82,131
Non-current	25,408	58,005	9,191	7,765	–	–	34,599	65,770
	25,408	109,629	9,191	7,765	11,403	30,507	46,002	147,901

THE COMPANY

	Investment securities		Other investments		Total	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities:						
Listed	–	–	7	–	7	–
Unlisted	3,883	3,883	–	–	3,883	3,883
	3,883	3,883	7	–	3,890	3,883
Market value of listed securities	–	–	7	–	7	–
Carrying amount analysed for reporting purposes as:						
Current	–	–	7	–	7	–
Non-current	3,883	3,883	–	–	3,883	3,883
	3,883	3,883	7	–	3,890	3,883

19. AMOUNTS DUE FROM SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

20. LOANS RECEIVABLE

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Term loans	3,323	3,505	–	1,035
Mortgage loans, after provision	2,922	3,381	–	–
	6,245	6,886	–	1,035
Less: Amount due within one year shown under current assets	(1,027)	(4,263)	–	(1,035)
Amount due after one year	5,218	2,623	–	–

The term loans are unsecured, interest bearing at prevailing market rates and are repayable on 22nd March, 2003.

The mortgage loans bear interest at 0.5% over prime rates and are repayable by instalments and the last of which are falling due within the period from 2005 to 2013. The loans are secured by mortgages over the corresponding properties.

21. INVENTORIES

	THE GROUP		THE COMPANY	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Premium items for credit card holders	304	–	–	–
Goods held for resale	5	505	5	5
	309	505	5	5

Included in inventories of the Group in 2000 were goods held for resale of HK$410,000 which were carried at net realisable value.

22. PROPERTIES HELD FOR SALE

THE GROUP AND THE COMPANY

The properties held for sale are situated in Hong Kong and held under medium-term leases.

23. TRADE AND OTHER RECEIVABLES

The Group does not allow any credit terms to its trade customers but allows up to 56 days interest free repayment period for the credit card holders for retail sales.

The following is an aged analysis of trade receivables at the reporting date:

	THE GROUP	
	2001	**2000**
	HK$'000	*HK$'000*
0 – 60 days	112,060	358
61 – 90 days	2,513	38
Over 90 days	15,304	2,815
Deposits, prepayments and other receivables	11,732	29,513
	141,609	32,724

Included in deposits, prepayments and other receivables at 31st March, 2000 was a deposit of HK$17,521,979 paid to MBf Asia Capital Corporation Holdings Limited ("MACC"). Pursuant to an agreement entered into between MACC, Online Credit Limited and Online Credit International Limited, Online Credit Limited has agreed to acquire all stakes in Online Credit Card Limited and Online Discount Card Limited (formerly known as MBf Card International Limited and MBf Discount Card (HK) Limited, respectively), both being wholly-owned subsidiaries of MACC.

24. AMOUNTS DUE FROM ASSOCIATES

THE GROUP AND THE COMPANY

The amounts are unsecured, interest free and have no fixed repayment terms.

25. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.25 each		
Authorised:		
At beginning and at end of the years 2001 and 2000	2,000,000,000	500,000
Issued and fully paid:		
At 1st April, 1999	1,250,456,676	312,614
Exercise of warrants	17,507,036	4,377
Exercise of share options	150,000	37
At 31st March, 2000	1,268,113,712	317,028
Exercise of warrants *(Note 26)*	4,253	1
At 31st March, 2001	1,268,117,965	317,029

26. WARRANTS

On 3rd December, 1999, a bonus issue of warrants was made on the basis of one warrant for every five shares held on 29th September, 1999. Each warrant entitles the holder to subscribe in cash at an initial subscription price of HK$0.25 each (subject to adjustment) for one ordinary share of the Company at any time from the date of issue to 31st December, 2000. Movements of these warrants during the year are as follows:

			Number of warrants			
Date of issue	Subscription price	Subscription period	Outstanding at 1.4.2000	Subscribed during the year	Lapsed during the year	Outstanding at 31.3.2001
	HK$					
3rd December, 1999	0.25	3.12.1999 to 31.12.2000	232,584,299	(4,253)	(232,580,046)	–

No warrant was granted during the year.

27. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 28th September, 1995, the board of directors of the Company may grant options to executive directors and employees of the Company and its subsidiaries to subscribe for ordinary shares in the Company, at a price not less than 80% of the average closing price of the Company's shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares whichever is the higher. The maximum number of shares in respect of which options may be granted under such share option scheme is such number of shares which, when aggregated with shares subject to similar schemes, represents 10% of the issued share capital of the Company from time to time.

A summary of the share options outstanding at 1st April, 2000 and 31st March, 2001 is as follows:

Date of grant	Exercisable period	Exercise price	Outstanding at 1.4.2000	Lapsed during the year	Outstanding at 31.3.2001
		HK$			
22.4.1996	22.4.1996 – 21.4.2006	0.4025	3,271,739	(200,000)	3,071,739
15.5.1997	15.5.1997 – 14.5.2007	0.4512	17,600,000	–	17,600,000
26.10.1997	26.10.1997 – 25.10.2007	0.3064	62,300,000	–	62,300,000
			83,171,739	(200,000)	82,971,739

No share option was granted or exercised during the year.

The options granted were exercisable during the ten year period commencing after the date on which the options were accepted.

Consideration of HK$1 was received by the Company from each of the option holders at the time that the options were accepted.

28. RESERVES

	Share premium *HK$'000*	**Goodwill reserve** *HK$'000*	**Capital reserve** *HK$'000*	**Translation reserve** *HK$'000*	**Deficit** *HK$'000*	**Total** *HK$'000*
THE GROUP						
At 1st April, 1999	366,478	(65,034)	1,479	12,434	(271,278)	44,079
Goodwill arising on acquisition of additional interest in a subsidiary	–	(570)	–	–	–	(570)
Exchange realignment	–	–	–	(231)	–	(231)
Exercise of share options	31	–	–	–	–	31
Net loss for the year	–	–	–	–	(33,805)	(33,805)
At 31st March, 2000	366,509	(65,604)	1,479	12,203	(305,083)	9,504
Attributable to:						
Company and subsidiaries	366,509	(65,604)	(584)	12,167	(286,989)	25,499
Associates	–	–	2,063	36	(18,094)	(15,995)
	366,509	(65,604)	1,479	12,203	(305,083)	9,504
At 1st April, 2000	366,509	(65,604)	1,479	12,203	(305,083)	9,504
Goodwill arising on acquisition of additional interest in a subsidiary	–	(240)	–	–	–	(240)
Capital reserve arising on acquisition of subsidiaries	–	2,722	–	–	–	2,722
Exchange realignment	–	–	–	(71)	–	(71)
Net loss for the year	–	–	–	–	(99,829)	(99,829)
At 31st March, 2001	366,509	(63,122)	1,479	12,132	(404,912)	(87,914)
Attributable to:						
Company and subsidiaries	366,509	(63,122)	(584)	12,096	(386,818)	(71,919)
Associates	–	–	2,063	36	(18,094)	(15,995)
	366,509	(63,122)	1,479	12,132	(404,912)	(87,914)

	Share premium HK$'000	Deficit HK$'000	Total HK$'000
THE COMPANY			
At 1st April, 1999	366,478	(324,942)	41,536
Exercise of share options	31	–	31
Net loss for the year	–	(38,258)	(38,258)
At 31st March, 2000	366,509	(363,200)	3,309
Net loss for the year	–	(139,559)	(139,559)
At 31st March, 2001	366,509	(502,759)	(136,250)

The Company had no reserve available for distribution to shareholders at 31st March, 2001.

29. BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Notes payable	–	4,648	–	–
Mortgage loans	4,803	1,251	–	–
Bills payable	–	217	–	–
Trust receipt loans	–	201	–	–
Bank overdrafts	27	188	26	150
	4,830	6,505	26	150
Secured	4,803	6,100	–	–
Unsecured	27	405	26	150
	4,830	6,505	26	150
The maturity of the above loans and overdrafts is as follows:				
On demand or within one year	428	755	26	150
More than one year, but not exceeding two years	431	163	–	–
More than two years, but not exceeding five years	1,450	536	–	–
More than five years	2,521	5,051	–	–
	4,830	6,505	26	150
Less: Amount due within one year shown under current liabilities	(428)	(755)	(26)	(150)
Amount due after one year	4,402	5,750	–	–

Notes payable in 2000 were secured by certain investment properties of the Group with a carrying value of HK$6,759,000. They were repayable by instalments and bore interest at 9% per annum. The amounts were fully repaid during the year.

30. AMOUNTS DUE TO ASSOCIATES

THE GROUP AND THE COMPANY

The amounts are unsecured, interest free and are not repayable within the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

THE GROUP

Details of this amount is stated in note 42(d).

31. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest free and are not repayable within the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

32. DEFERRED TAXATION

	THE GROUP	
	2001	**2000**
	HK$'000	*HK$'000*
At beginning of the year	1,626	907
(Credit) charge for the year *(note 10)*	(612)	719
At end of the year	1,014	1,626

The balance as at 31st March, 2001 comprised deferred taxation of HK$1,014,000 (2000: HK$907,000) and HK$Nil (2000: HK$719,000) regarding the provision for withholding tax on overseas interest income and the deferred tax liability provided on the Group's unrealised gain arising on revaluation of investment in securities respectively. The withholding tax is due to be paid upon remittance of the income from the respective jurisdictions.

The Group and the Company have a net deferred tax asset respectively which has not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the unprovided deferred tax asset (liability) are as follows:

	THE GROUP		**THE COMPANY**	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax effect of timing differences because of:				
Tax losses	30,553	13,618	8,056	8,056
Shortfall (excess) of tax allowances over depreciation	58	(5)	8	(6)
Net deferred tax asset	30,611	13,613	8,064	8,050

The amount of unprovided deferred tax credit (charge) for the year is as follows:

	THE GROUP		**THE COMPANY**	
	2001	**2000**	**2001**	**2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax effect of timing differences because of:				
Tax losses arising	16,935	2,280	–	2,291
Shortfall of tax allowances over depreciation	63	83	14	82
	16,998	2,363	14	2,373

Deferred taxation has not been provided on the valuation deficit arising on the revaluation of investment properties and properties held for development as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

33. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the reporting date:

	THE GROUP	
	2001	**2000**
	HK$'000	*HK$'000*
0 – 60 days	6,799	14,679
61 – 90 days	222	–
Over 90 days	29,764	5,159
	36,785	19,838

Included in trade and other payables in 2000 were option fees paid in advance by Global Vmall.com (USA) Inc. amounting to HK$2,718,000 and HK$6,342,000 in respect of the first and second option fees respectively for the acquisition of shares in eBiz.hk.com Limited ("eBiz") from the Company. The option fees were recognised as income upon expiry of the options during the year.

34. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001	**2000**
	HK$'000	*HK$'000*
Loss before taxation	(100,439)	(33,317)
Interest income	(8,605)	(6,538)
Interest expenses	563	638
Provision for loan receivable	250	500
Gain on disposal of investment properties	(931)	–
Impairment loss recognised in respect of interests in/amount due from an associate	5,327	6,538
Gain on disposal of interests in a subsidiary and associates	–	(4,529)
Loss on disposal of property, plant and equipment	153	76
Impairment less recognised in respect of properties under development for sale	–	7,300
Deficit on revaluation of investment properties	238	965
Depreciation	2,387	1,404
Decrease in term loans	182	32,095
Decrease (increase) in investments in securities	101,899	(10,918)
Decrease in inventories	569	545
(Increase) decrease in trade and other receivables	(78,227)	6,854
(Decrease) increase in bills payable	(217)	72
Decrease in trust receipt loans	(201)	(72)
(Decrease) increase in trade and other payables	(29,579)	6,661
Increase in amount due to an associate	44,470	–
Exchange realignment	149	(336)
Net cash (outflow) inflow from operating activities	(62,012)	7,938

35. MAJOR NON CASH TRANSACTION

During the year, interest income amounting to HK$5,128,000 (2000: HK$6,538,000) was received from an associate, eVision USA.Com, Inc., ("eVision"), in form of its common stocks.

36. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired the entire issued share capital of Online Credit Card Limited and Online Discount Card Limited (formerly known as MBf Card International Limited and MBf Discount Card (HK) Limited respectively) for a total cash consideration of HK$38,742,583. The acquisitions have been accounted for by the acquisition method of accounting.

	2001	**2000**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	5,644	–
Inventories	373	–
Trade and other receivables	48,180	–
Pledged bank deposits	3,800	–
Bank balances and cash	8,773	–
Trade and other payables	(25,305)	–
Negative goodwill arising on acquisition	(2,722)	–
	38,743	–
Satisfied by:		
Cash paid in 2000	17,522	–
Deferred consideration	21,221	–
	38,743	–

	2001	**2000**
	HK$'000	*HK$'000*
Net cash inflow arising on acquisition		
Bank balances and cash acquired	8,773	–

The subsidiaries acquired during the year contributed approximately HK$3,194,000 to the Group's net operating cash inflow, paid approximately HK$9,934,000 in respect of net returns on investments and servicing of finance, paid approximately HK$345,000 in respect of investing activities and received approximately HK$885,000 in respect of financing activities.

The subsidiaries acquired during the year contributed approximately HK$42,745,000 to the Group's turnover and contributed loss from operations of approximately HK$9,038,000 for the year.

37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium	**Notes payable**	**Mortgage loans**
	HK$'000	*HK$'000*	*HK$'000*
At 1st April, 1999	679,092	7,091	–
Proceeds from shares issued upon exercise of warrants	4,408	–	–
Proceeds from shares issued upon exercise of share options	37	–	–
New loans raised during the year	–	–	1,307
Repayments during the year	–	(2,443)	(56)
At 31st March, 2000	683,537	4,648	1,251
Proceeds from shares issued upon exercise of warrants	1	–	–
New loans raised during the year	–	–	3,885
Repayments during the year	–	(4,648)	(333)
At 31st March, 2001	683,538	–	4,803

38. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities of the Group and the Company were as follows:

		THE GROUP AND THE COMPANY	
		2001	**2000**
		HK$'000	*HK$'000*
(a)	Guarantees given to a financial institution in respect of banking facilities granted to subsidiaries	3,884	4,648

The extent of the facilities utilised as at 31st March, 2001 by the subsidiaries amounted to HK$3,737,000 (2000: HK$4,648,000)

(b) Actions were brought by Pricerite Stores Limited and Pricerite Group Limited (together referred to as "Pricerite") respectively, against a subsidiary of the Company, in respect of the alleged breach of agreement, for damages which are not quantified. In the opinion of the directors, it is not practicable at this stage to determine with certainty the outcome of the litigation; and

(c) Certain former staff of a subsidiary of the Company issued writs against the subsidiary claiming for wrongful dismissal of approximately HK$1,542,000 plus interest and related costs. The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims. Accordingly, no provision has been made in these financial statements.

39. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable within the next year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2001	**2000**
	HK$'000	*HK$'000*
Operating leases which expire:		
Within one year	1,805	142
More than one but not exceeding five years	691	1,852
More than five years	–	690
	2,496	2,684

At the balance sheet date, the Company did not have any commitments under non-cancellable operating leases.

40. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged bank balances of HK$5,074,000 (2000: HK$2,020,000) as a security for banking facilities granted to a subsidiary and as securities for the credit card business transactions with MasterCard International Corporation.

The mortgage loans of HK$4,803,000 (2000: HK$1,251,000) and notes payable of HK$Nil (2000: HK$4,648,000), are secured on the investment properties of the Group in with an aggregate carrying value of HK$8,309,000 (2000: HK$8,794,000).

41. RETIREMENT BENEFIT SCHEME

The Group operates a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for all 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. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

At the balance sheet date, there were no forfeited contribution arose upon employees leaving the scheme which are available to reduce the contributions payable in the future years.

42. RELATED PARTY TRANSACTIONS

During the year, the Company had transactions with related parties as follows:

(a) In December 1997, eVision sold Online Credit Limited ("Online Credit"), a subsidiary of the Company, a ten year US$4,000,000 10% Convertible Debenture that is convertible into shares of common stock of eVision at a price of US$0.53125 per share until 15th December, 2007, unless sooner paid, and an option to purchase a US$11,000,000 10% Convertible Debenture that is convertible into shares of common stock of the eVision at a price of US$0.61 per share until ten years from the date of issue unless sooner paid. Subsequently, Online Credit partially exercised the option and purchased additional 10% Convertible Debenture totaling US$2,500,000.

On 23rd September, 1998, Online Credit and eVision agreed to amend the terms of the remaining US$8,500,000 of the US$11,000,000 10% Convertible Debenture by increasing the interest rate to 12%, changing the conversion price to the lower of US$0.35 or the fair market value per share, and changing the default conversion price to US$0.10 per share. On 25th September, 1998, Online Credit partially exercised its option to purchase US$8,500,000 of 12% Convertible Debenture by purchasing a US$500,000 12% Convertible Debenture from eVision. On 17th November, 1999, Online Credit purchased an additional US$1,000,000 convertible debenture.

As of 31st March, 2000 and 2001, Online Credit had purchased up to a total of US$8,000,000 of the Convertible Debenture. The principal is due on 15th December, 2007 except for one instalment of US$500,000 which is due in March 2000. Online Credit extended the due date of the US$500,000 instalment from March 2000 to March 2001 for which, eVision paid Online Credit a fee of US$15,000, in the form of 44,092 common shares of eVision. In consideration of a fee of 1% or US$5,000 given by eVision, the due date of this instalment was extended further to March 2002. The interest on the Convertible Debenture was paid in form of the shares of the eVision's common stock and as at 31st March, 2001, eVision had US$424,222 (2000: US$420,139) of accrued interest payable to Online Credit relating to the Convertible Debenture.

(b) In April 1998, Fronteer Capital, Inc., a subsidiary of eVision, and Online Credit respectively committed to provide to Global Med Technologies, Inc. ("Global Med") lines of credit for an amount up to US$1,650,000 and US$1,500,000 respectively. The loans bore interest calculated at a rate of 12% per annum and matured in April 1999. For giving the commitment, Online Credit received warrants to purchase 6,000,000 shares of Global Med's common stock at US$0.25 per share.

In October 1998, eBanker USA.com, Inc. ("eBanker"), a subsidiary of eVision, Online Credit and Global Med entered into an agreement whereby eBanker purchased, Online Credit sold and Global Med consented to the sale of US$1,000,000 principal amount of loans made by Online Credit to Global Med along with a warrant to purchase an aggregate of 4,000,000 shares of Global Med's common stock. eBanker paid Online Credit US$1,100,000 for the loans and warrants.

In March 1999, Online Credit exercised its remaining 2,000,000 warrants for the cancellation of the remaining US$500,000 it had extended to Global Med.

(c) In April 1999, Online Credit entered into a bridge loan commitment with Global Med for US$2,000,000 due in April 2000. The loan was convertible, at Online Credit's option, into shares of Global Med's common stock at a price US$1.15 per share. The loan bore interest at 12% and Online Credit was paid a 5% commitment fee in the form of 86,957 shares of Global Med's common stock.

In October 1999, Online Credit, as agreed to by Global Med, assigned to eBanker its US$2,000,000 bridge loan commitment to Global Med and transferred to eBanker the 86,957 shares of Global Med common stock.

(d) In March 2000, eBanker acquired from MBf Card International Limited ("MBf"), a non-revolving interest in certain outstanding credit card accounts receivable, for a total consideration of US$7,625,062.

Following the acquisition of the credit card portfolio by eBanker, Online Credit acquired MBf and changed the name of MBf to Online Credit Card Limited (OCCL). OCCL processes the credit card collections for eBanker, remits collection to eBanker on a monthly basis, and manages and absorbs (i) the administration and overhead costs of the portfolio including rent, utilities, salaries, wages, benefits, and hardware, software and other equipment costs, (ii) the underlying cards' benefits and bonus points program, (iii) one-third of any charge-offs and (iv) the provision of 24-hours customer support.

During the year ended 31st March, 2001, OCCL and eBanker entered into agreements to provide credit card facilities to several unrelated companies in Hong Kong. The credit card facilities bear interest at the rate of 3% per month and is administered by OCCL. In exchange for OCCL's administration of the facilities including legal documentation and due diligence, eBanker has agreed to pay OCCL 10% per annum on eBanker's share of the outstanding balances. The share of the outstanding credit card balances by eBanker as of 31st March, 2001 amounted to HK$38,568,081.

In connection with the above arrangements, eBanker received interest of HK$8,499,645 to and paid OCCL a fee of HK$1,164,863 from eBanker for the year ended 31st March, 2001. As a result of the above arrangements, the amount due to eBanker as of 31st March, 2001 amounted to HK$44,470,000.

(e) In October 1998, eVision commenced a private placement of 1,500,000 shares of its Series B Preferred Stock at a price of US$10 per share. The Company had guaranteed the payment of the annual 8% cash dividend on the stock through October 2002. In consideration for this guarantee, eVision issued the Company 250,000 shares of eVision's common stock. In May 1999, eVision commenced a second private placement of 1,500,000 Convertible Series B Preferred Stock at a price of US$10 per share. All of the Series B Preferred Stock was exchanged for Convertible Series B Preferred Stock. In September 1999, eVision commenced a third private offering of 1,500,000 shares of its Convertible Series B-1 Preferred Stock at a price of US$10 per share. All Convertible B Preferred Stock were exchanged for the Convertible Series B-1 Preferred Stock. The Convertible Series B-1 Preferred Stock has a cumulative annual dividend rate payable semi-annually of 8% in 1% cash and 7% in additional shares of Convertible Series B-1 Preferred Stock. The Company has guaranteed the payment of any cash dividends that accrue on the Convertible Series B-1 Preferred Stock through 31st October, 2002.

(f) In February 1999, Online Credit entered into a facilities agreement with eBiz.hk.com Limited ("eBiz"), pursuant to which Online Credit provided the standby facilities for a maximum amount of HK$50 million to eBiz. Under the terms of the facilities agreement, any drawdowns against the standby facilities may be made by eBiz at any time on or before the expiry of a period of 23 months from 12th February, 1999 on a revolving basis. Interest was payable at the rate of 2% per annum over prime rates on the amounts of the standby facilities drawn down and outstanding. All amounts outstanding under the standby facilities, together with interest accrued thereon, are to be repaid to Online Credit in full before the expiry of the facilities on 11th February, 2001.

(g) On 24th November, 2000, the Company entered into an agreement with eBiz in connection with the acquisition of three wholly-owned subsidiaries of the Company (the "Property Companies") by eBiz. Pursuant to which, the Company agreed to sell and eBiz agreed to acquire the entire issued share capital of the Property Companies and the shareholders' loans owing by the Property Companies to the Company in an aggregate amount of HK$102,168,228 for an aggregate consideration of HK$56,402,477. The consideration for the acquisition were satisfied by way of issue and allotment of 56,402,477 new Preference shares of eBiz at HK$1 each. The new Preference shares can be converted into new shares at an initial conversion price of HK$0.20 each, subject to adjustments.

Notes:

(i) Mr. Chan Heng Fai, a director and substantial shareholder of the Company is the Chairman, President and Director of eVision and is also a director of Global Med.

(ii) Mr. Trapp Robert Herman, a non-executive director of the Company, who indirectly holds certain issued shares of the Company, is a director of eVision, the President of American Fronteer Financial Corporation, a subsidiary of eVision and is also a director of Global Med.

(iii) Mr. Fong Kwok Jen, a non-executive director and a shareholder of the Company, is a director of eVision and is also a director of Global Med.

The terms of the above transactions were mutually agreed by the parties involved.

43. POST BALANCE SHEET EVENTS

On 8th June, 2001, Online Credit entered into an agreement with eVision. Pursuant to the agreement, Online Credit agreed to acquire from eVision the following:

(1) securities equivalents to a 39.9% interest in the existing issued shares in eBanker, 1 series A preferred share, US$660,000 convertible debentures, 330,000 US$9 warrants, 307,692 US$8 warrants and 307,692 US$9 warrants for a consideration of US$5,518,416.

(2) the entire issued shares in Global Growth for a consideration of US$1,000,000.

(3) an aggregate of 1,050,000 shares, or an approximately 4.67% interest in Global Med for a consideration of US$795,000.

The aggregate consideration of US$7,313,416 will be satisfied by reducing the outstanding amount of the convertible debenture issued by eVision to Online Credit by an equivalent amount. On 26th June, 2001, Online Credit entered into a supplementary agreement with eVision to extend the completion date to 24th October, 2001 for eVision to fulfil its requirement in obtaining shareholders' approval of the transactions prior to completion.

44. PARTICULARS OF SUBSIDIARIES

Particulars of principal subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
PhoneBox International Limited (formerly known as Cyber House Hong Kong Limited)	Hong Kong	Ordinary HK$2	–	56	Investment holding
eBiz.hk.com.Limited	Bermuda	Ordinary HK$2,083,000	–	56	Retailing and distribution of fashion apparel and accessories and share trading
		Non-voting cumulative redeemable convertible preference shares HK$123,902,477 *(Note a)*	–	100	
eCredit Singapore Pte. Limited (formerly known as Heng Fung Capital (S) Pte. Ltd.)	Singapore	SGD$13,417,282	99	–	Investment holding
Faith Profit Limited	Hong Kong	HK$10,000	–	56	Property holding

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Fronteer Securities (HK) Limited	Hong Kong	Ordinary HK$2	–	56	Financial and securities investment
Heng Fung Capital Company Limited	Hong Kong	HK$2	100	–	Securities investment
Heng Fung Capital, Inc.	United States of America	US$15,000	100	–	Investment holding
Heng Fung Capital (Canada) Inc.	Canada	*(Note b)*	100	–	Property holding
Heng Fung Equities, Inc.	United States of America	US$15,000	–	100	Securities investment
Heng Fung Underwriter Limited	Hong Kong	HK$2	100	–	Securities trading
Instantstyle.com Limited	Hong Kong	Ordinary HK$2	–	56	Operating web sites
Iwai Denmark Limited	Hong Kong	Ordinary HK$10,000	–	56	Retailing of fashion apparel and accessories
Iwai Paris Limited	Hong Kong	Ordinary HK$500,000	–	56	Retailing of fashion apparel and accessories
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Ordinary HK$1,000	–	56	Investment and property holding
		Non-voting deferred shares HK$1,000,000 *(Note c)*	–	–	
Iwai's Investments Limited	The British Virgin Islands/ Hong Kong	Ordinary HK$10,000	–	56	Investment holding
Keng Fong America Enterprises Limited	Hong Kong	HK$1,500,000	100	–	Investment holding
Keng Fong Canada Enterprises Limited	Hong Kong	HK$10,000	100	–	Investment holding
Keng Fong Foreign Investment Co. Ltd.	United States of America	US$250,000	–	100	Property investment and development
Keng Fong Malaysia Enterprises Limited	Hong Kong	HK$100,000	100	–	Investment holding
Luckford Enterprise Limited	Hong Kong	HK$10,000	–	56	Property development
Hai Xia Finance Limited (formerly known as Mall 368.com Limited)	Hong Kong	Ordinary HK$2	–	56	Retailing of fashion apparel and accessories
Masaru Iwai Enterprises (Hong Kong) Limited	Hong Kong	Ordinary HK$1,000,000	–	56	Trading of fashion apparel and accessories

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Online Credit Card Limited	Hong Kong	Ordinary HK$120,000,000 7% Non-voting cumulative redeemable preference shares HK$13,866,230	–	99	Credit card services
Online Credit Limited (formerly known as Heng Fung Finance Company Limited)	Hong Kong	HK$1,260,000	–	99	Investment holding
Online Discount Card Limited	Hong Kong	Ordinary HK$12,000,000	–	99	Discount card services
Rasa Sayang Limited	Hong Kong	HK$10,000	100	–	Securities investment
Sure World Capital Limited	British Virgin Islands	US$50,000	100	–	Investment holding
Wai Kin Investment Company, Limited	Hong Kong	HK$600,000	100	–	Investment holding
Wellgem Asia Limited	Hong Kong	HK$10,000	–	56	Property development
York Winner Investment Limited	Hong Kong	Ordinary HK$2	–	56	Financial and securities investment

Notes:

a. The non-voting cumulative redeemable convertible preference shares ("CP Shares") shall carry equal rights and rank pari passu with one another as follows:

(i) Holders of the CP Shares are entitled in priority to any dividend payable in respect of the ordinary shares of eBiz at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP Shares which are specified in the subscription agreement dated 12th February, 1999 and two supplement agreements dated 15th February, 1999 and 9th March, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is payable cumulative and semi-annually in arrears on 31st March and 30th September in each year during the conversion period which falls after the second anniversary from the date of issue of the CP Shares and the first payment is due on 30th September, 2001.

(ii) The CP Shares are convertible in multiples of 1,000,000 into the ordinary shares of eBiz.

(iii) The CP Shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP Shares.

(iv) The CP Shares do not have any voting rights.

b. As of the balance sheet date, no part of the capital has been contributed.

c. The non-voting deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

The above table lists the principal subsidiaries of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

45. PARTICULARS OF PRINCIPAL ASSOCIATE

Particulars of principal associate at 31st March, 2001 are as follows:

Name of associate	Place of incorporation/ registration/ operation	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
		%	%	
eVision USA.Com, Inc.	USA	0.93	34.14	Securities investment

The above table lists the principal associate of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

4. INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

Set out below are the unaudited interim results of the Group for the six months ended 30th September, 2001 together with the comparative figures for the corresponding period in the last financial year:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2001

		Six months ended	
		30.9.2001	**30.9.2000**
	Notes	*HK$'000*	*HK$'000*
		(unaudited)	**(unaudited)**
Turnover	*4*	35,475	27,201
Cost of sales		(9,164)	(2,431)
Gross profit		26,311	24,770
Other revenue		1,744	10,229
Distribution costs		(1,059)	(2,539)
Administrative expenses		(29,865)	(31,872)
Other operating expenses		(125)	(4,715)
Reversal of (recognition of) impairment loss in respect of investments in securities		9,399	(7,898)
Profit (loss) from operations	*6*	6,405	(12,025)
Finance costs		(4,287)	(3,342)
Net loss on investment in an associate		–	(3,364)
Gain on deemed disposal of a subsidiary	*7*	14,937	–
Impairment loss recognised in respect of goodwill	*3*	(28,898)	–
Loss before taxation		(11,843)	(18,731)
Taxation	*8*	89	(313)
Net loss before minority interests		(11,754)	(19,044)
Minority interests		–	–
Net loss for the period		(11,754)	(19,044)
Loss per share – basic	*9*	0.93 cent	1.50 cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 30th September, 2001

	Notes	30.9.2001 HK$'000 (unaudited)	31.3.2001 HK$'000 (audited)
Non-current assets			
Investment properties	10	18,755	18,755
Property, plant and equipment	10	74,429	75,596
Investments in securities		43,153	34,599
Loans receivable – due after one year		1,533	5,218
Pledged bank deposits		4,062	4,023
		141,932	138,191
Current assets			
Inventories		283	309
Properties held for sale		79	79
Trade and other receivables	11	130,382	141,609
Amounts due from associates		189	189
Loans receivable – due within one year		1,906	1,027
Investments in securities		10,695	11,403
Pledged bank deposits		–	1,051
Bank balances and cash		40,229	24,412
		183,763	180,079
Current liabilities			
Trade and other payables	12	35,632	36,785
Amount due to an associate		33,401	44,470
Borrowings	13	421	428
Taxation payable		40	377
		69,494	82,060
Net current assets		114,269	98,019
Total assets less current liabilities		256,201	236,210
Non-current liabilities			
Borrowings	13	4,186	4,402
Amounts due to associates		1,679	1,679
Deferred taxation		1,014	1,014
		6,879	7,095
		249,322	229,115
Capital and reserves			
Share capital	14	317,029	317,029
Reserves	15	(67,707)	(87,914)
		249,322	229,115

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th September, 2001

	Six months ended 30.9.2001 HK$'000 (unaudited)	Six months ended 30.9.2000 HK$'000 (unaudited)
Exchange difference arising on translation of overseas operations	–	(482)
Net loss for the period	(11,754)	(19,044)
Total recognised losses	(11,754)	(19,526)
Capital reserve arising on acquisition of subsidiaries	–	2,722
	(11,754)	(16,804)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2001

	Six months ended	
	30.9.2001	**30.9.2000**
	HK$'000	*HK$'000*
	(unaudited)	**(unaudited)**
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(3,038)	(75,095)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	255	16,060
NET TAX PAID	(248)	(316)
NET CASH INFLOW FROM INVESTING ACTIVITIES	1,071	37,718
NET CASH OUTFLOW BEFORE FINANCING	(1,960)	(21,633)
NET CASH INFLOW FROM FINANCING	17,799	3,982
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,839	(17,651)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	24,385	74,289
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	40,224	56,638
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	40,229	56,918
Bank overdrafts	(5)	(280)
	40,224	56,638

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2001

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. Its subsidiaries are principally engaged in investment holding, property investment and development, securities investment and credit card business.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for revaluation of certain properties and 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 31st March, 2001 except as described below.

In the current period, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

Segment reporting

SSAP 26 "Segment reporting", which has been adopted for the first time in this interim financial report, has established principles for reporting a segmental analysis of financial information. Segment disclosures for the six months ended 30th September, 2000 have been amended so that they are presented on a consistent basis. The details are set out in note 4.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 31st March, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 31st March, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 31st March, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 31st March, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Impairment of assets

SSAP 31 "Impairment of assets" is effective for periods beginning on or after 1st January, 2001 and has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets. Although in prior years, the Group complied with the requirements of specific Accounting Standards in respect of impairment losses, the introduction of SSAP 31 has required a re-estimation of the recoverable amount of goodwill arising on acquisition of subsidiary and associate, resulting in the identification of additional impairment loss at 30th September, 2001 amounting to HK$28,898,000. These additional impairment loss has been recognised in full in the current interim period.

Provisions

In accordance with SSAP 28 "Provisions, contingent liabilities and contingent assets", provisions are recognised when the Group has a present obligation as a result of a past event which is probable will result in an outflow of economic benefits that can be reasonably estimated.

The adoption of the above standards has had no material effect on amounts reported in prior periods.

4. SEGMENT INFORMATION

The Group's turnover and contribution to profit (loss) from operations, analysed by business segments and by geographical segments, are as follows:

	Turnover		Contribution to profit (loss) from operations	
	Six months ended		Six months ended	
	30.9.2001	**30.9.2000**	**30.9.2001**	**30.9.2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
By business segments:				
Credit card operations	29,111	13,056	17,071	(468)
Securities trading and investments	1,737	2,490	1,801	2,115
Treasury investment – interest income	3,885	7,933	7,721	7,933
Retailing of fashion apparel and accessories	72	2,873	(368)	284
Property investment	670	849	550	316
	35,475	27,201	26,775	10,180
Unallocated corporate expenses			(20,370)	(22,205)
Profit (loss) from operations			6,405	(12,025)

Included in credit card operations for the period are credit card service income and credit card interest income of approximately HK$2,479,000 (2000: HK$2,287,000) and HK$26,632,000 (2000: HK$10,769,000) respectively.

There is no inter-segment sales between different business segments.

	Turnover		Contribution to profit (loss) from operations	
	Six months ended		Six months ended	
	30.9.2001	**30.9.2000**	**30.9.2001**	**30.9.2000**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
By geographical segments:				
Hong Kong	35,065	26,190	26,523	9,347
North America	214	794	156	616
South East Asia	196	217	96	217
	35,475	27,201	26,775	10,180
Unallocated corporate expenses			(20,370)	(22,205)
Profit (loss) from operations			6,405	(12,025)

5. OTHER REVENUE

Included in other revenue for the six months ended 30th September, 2000 was an option fee of HK$9,060,000 recognised on expiry of options granted to Global Vmall.com (USA) Inc. for the acquisition of shares in Hai Xia Holdings Limited ("Hai Xia") (formerly known as eBiz.hk.com Limited), a subsidiary of the Company.

6. PROFIT (LOSS) FROM OPERATIONS

	Six months ended	
	30.9.2001	**30.9.2000**
	HK$'000	*HK$'000*
	(unaudited)	**(unaudited)**
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation	1,215	1,167
Dividend income	(671)	(699)

7. DEEMED DISPOSAL OF A SUBSIDIARY

During the period, Hai Xia Holdings Limited (formerly known as eBiz.hk.com Limited) ("Hai Xia") issued 30,000,000 ordinary shares of HK$0.60 each for a total consideration of HK$18,000,000 to raise additional working capital, which resulted in a deemed disposal of the Company's interest in the ordinary share capital of Hai Xia.

8. TAXATION

	Six months ended	
	30.9.2001	**30.9.2000**
	HK$'000	*HK$'000*
	(unaudited)	**(unaudited)**
The tax credit (charge) comprises:		
Hong Kong Profits Tax		
– Over(under)provision in respect of prior periods	89	(23)
Overseas taxation	–	(290)
	89	(313)

No provision for Hong Kong Profits Tax and overseas taxation have been made as there is no assessable profit for the period. Overseas taxation for the six months ended 30th September, 2000 was calculated at the rates prevailing in the respective jurisdiction.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss for the period of HK$11,754,000 (2000: HK$19,044,000) and on the weighted average number of 1,268,117,965 (2000: 1,268,115,869) ordinary shares in issue during the period.

No diluted loss per share is calculated as the effect of potential ordinary shares is anti-dilutive.

10. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired and disposed of property, plant and equipment of HK$71,000 and HK$23,000 respectively (Six months ended 30th September, 2000: HK$6,837,000 and HK$22,000 respectively).

The Group did not acquire or dispose of any investment properties during the either period.

11. TRADE AND OTHER RECEIVABLES

The Group does not allow any credit terms to its trade customers but allow up to 56 days interest-free repayment period to credit card holders for retail sales.

The following is an aged analysis of trade receivables at the reporting date:

	30.9.2001 *HK$'000* **(unaudited)**	**31.3.2001** *HK$'000* **(audited)**
0 – 60 days	110,648	112,060
61 – 90 days	2,887	2,513
Over 90 days	6,996	15,304
Deposits, prepayments and other receivables	9,851	11,732
	130,382	141,609

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the reporting date:

	30.9.2001 *HK$'000* **(unaudited)**	**31.3.2001** *HK$'000* **(audited)**
0 – 60 days	2,957	6,799
61 – 90 days	250	222
Over 90 days	32,425	29,764
	35,632	36,785

13. BORROWINGS

	30.9.2001 *HK$'000* **(unaudited)**	**31.3.2001** *HK$'000* **(audited)**
Mortgage loans	4,602	4,803
Bank overdrafts	5	27
	4,607	4,830
Less: amount due within one year shown under current liabilities	(421)	(428)
Amount due after one year	4,186	4,402

14. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.25 each		
Authorised:		
At beginning and at end of the period/year	2,000,000,000	500,000
Issued and fully paid:		
At 1st April, 2000	1,268,113,712	317,028
Exercise of warrants	4,253	1
At 31st March, 2001 and 30th September, 2001	1,268,117,965	317,029

15. RESERVES

	Share premium *HK$'000*	Goodwill reserve *HK$'000*	Capital reserve *HK$'000*	Translation reserve *HK$'000*	Deficit *HK$'000*	Total *HK$'000*
At 1st April, 2000	366,509	(65,604)	1,479	12,203	(305,083)	9,504
Goodwill arising on acquisition of additional interest in a subsidiary	–	(240)	–	–	–	(240)
Capital reserve arising on acquisition of subsidiaries	–	2,722	–	–	–	2,722
Exchange realignment	–	–	–	(71)	–	(71)
Net loss for the year	–	–	–	–	(99,829)	(99,829)
At 31st March, 2001	366,509	(63,122)	1,479	12,132	(404,912)	(87,914)
Released on deemed disposal of a subsidiary	–	3,063	–	–	–	3,063
Impairment of goodwill recognised	–	28,898	–	–	–	28,898
Net loss for the period	–	–	–	–	(11,754)	(11,754)
At 30th September, 2001	366,509	(31,161)	1,479	12,132	(416,666)	(67,707)

16. PLEDGE OF ASSETS

At 30th September, 2001, the Group pledged bank deposits of HK$4,062,000 (31.3.2001: HK$5,074,000) as securities for the credit card business transactions with MasterCard International Inc. and as securities for banking facilities granted to a subsidiary.

The mortgage loans of HK$4,602,000 (31.3.2001: HK$4,803,000) are secured on the investment properties of the Group with an aggregate carrying value of HK$8,244,460 (3.31.2001: HK$8,309,000).

17. CHANGE OF NAME

Pursuant to a special resolution passed on 16th October, 2001, the name of the Company was changed from Online Credit International Limited 聯網信貸國際有限公司 to Heng Fung Holdings Limited 恒鋒集團有限公司.

18. POST BALANCE SHEET EVENTS

(a) On 24th October, 2001, the Company entered into agreement with eVision USA.Com., Inc., to extend the completion date of an agreement dated 8th June, 2001 relating to the acquisition of interests in eBanker USA.Com, Inc., Global Growth Inc. and Global Med Technologies Inc. Details of the agreements are set out in a circular issued to the shareholders of the Company on 30th June, 2001.

(b) On 27th July, 2001, the Company, Hai Xia Finance Holdings Limited ("Hai Xia Finance") and Hai Xia Holdings Limited ("Hai Xia"), a subsidiary of the Company entered into an agreement whereby the Company has agreed to grant to Hai Xia Finance an option to acquire up to 380,000,000 shares of Hai Xia at a price of HK$0.16 per share within 12 months from the date of satisfaction of certain conditions. A summary of the terms of this agreement is set out in a circular of the Company dated 21st August, 2001 issued to the shareholders of the Company. On 2nd November, 2001, the parties to this agreement entered into a supplemental agreement to extend the time limit for the satisfaction of the conditions to 31st December, 2001.

(c) On 22nd November, 2001, Hai Xia entered into a conditional agreement in relation to the Securities Exchange (the "Agreement") with Greater China Sci-Tech Holdings Limited ("Greater China"). Pursuant to the Agreement, Hai Xia has agreed to subscribe for Greater China's New Shares at a price of HK$0.10 each in consideration for the issue by Hai Xia's New Shares at HK$0.60 each. Upon completion of the Agreement, Hai Xia will effectively hold 11.9% of ordinary share capital of Greater China and Greater China will effectively hold 21.6% of ordinary share capital of Hai Xia.

(d) On 28th November, 2001 (and amended on 4th December, 2001), a subscription agreement was entered into between Hai Xia and First Bullet Finance Limited (the "Subscriber"), pursuant to which, Hai Xia has agreed to allot and issue to the Subscriber and the Subscriber has agreed to subscribe an aggregate of 36,000,000 shares in the capital of Hai Xia at a price of HK$0.60 per share, subject to, among other things, the Stock Exchange's approval. A summary of the terms of this agreement is set out in an announcement of Hai Xia dated 4th December, 2001.

5. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE

Set out below is a pro forma statement of the unaudited adjusted consolidated net tangible asset value of the Group based on the audited consolidated net tangible asset value of the Group as at 31st March, 2001 and adjusted as follows:

Pro forma statement of adjusted net tangible asset value of the Group	*HK$'000*	*HK$'000*	**Per Share** *HK$*
Audited consolidated net tangible asset value of the Group as at 31st March, 2001 *(Note 1)*		229,115	0.181
Unaudited loss for the period from 1st April, 2001 to 30th September, 2001 *(Note 2)*	(11,754)		
Unaudited loss for the period from 1st October, 2001 to 31st January, 2002 *(Note 3)*	(14,679)		
Unaudited loss for the period from 1st April, 2001 to 31st January, 2002		(26,433)	
Less: Capitalised research and development cost as at 31st January, 2002		(6,292)	
Less: Intangible assets (Goodwill arising from the acquisition of equity interest in US subsidiaries) as at 31st January, 2002 *(Note 4)*		(47,291)	
Less: Unrealised loss on marketable securities as at the Latest Practicable Date *(Note 5)*		(4,354)	
Add: Impairment loss of goodwill recognised *(Note 6)*		28,898	
Add: Release of goodwill reserve on deemed disposal of the Company's interest in the ordinary share capital of Hai Xia		10,063	
Add: Share of profit on disposal of interest in Global Med		5,823	
Add: Profit on deemed disposal of the Company's interest in the ordinary share capital of Hai Xia		19,042	
Add: Gain on transfer of 18% interest in OCCL pursuant to the Compromise Agreement *(Note 7)*		7,450	
Adjusted unaudited consolidated net tangible asset value immediately before Completion *(Note 1)*		216,021	0.170
Add: Net proceeds from the Subscription		18,000	
Adjusted unaudited consolidated net tangible asset value immediately after Completion but before the exercise of any of the subscription rights attaching to the Bonus Warrants *(Note 8)*		234,021	0.157
Add: Net proceeds upon full exercise of Bonus Warrant		20,000	
Adjusted unaudited consolidated net tangible asset value immediately after Completion and the exercise in full of the subscription rights attaching to the Bonus Warrants *(Note 9)*		254,021	0.154

Notes:

1. Number of Shares issued as at the Latest Practicable Date are 1,268,117,965 Shares.

2. The figure was extracted from the 2001 interim report of the Group for the six months ended 30th September, 2001.

3. The figure was extracted from the unaudited management accounts of the Group for the ten months ended 31st January, 2002.

4. The Group changed its accounting policy with respect to the treatment of goodwill arising in acquisition prospectively with effect from 1st April, 2002. In order to conform with the provisions of Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30"), the Group now recognises the goodwill arising on acquisition as an asset and amortises over its useful life rather than eliminates it against reserves in the year of acquisition.

   As the transitional provisions of SSAP 30 do not require the restatement of goodwill arising on acquisitions in periods before SSAP 30 is effective, the Group has elected not to restate the goodwill arising from acquisitions in the prior years.

   SSAP 30 has been applied prospectively to the acquisitions in the current year. Hence, the restatements set out in Note 4 only apply to the acquisitions in the current year.

5. The marketable securities are measured at fair value as at the Latest Practicable Date, the unrealised loss does not represent any permanent impairment loss.

6. The Group complied with the introduction of Statement of Standard Accounting Practice 31 in respect of impairment losses and required a re-estimation of the recoverable amount of goodwill arising on acquisition of subsidiaries and associates, resulting in the identification of additional impairment loss as at 31st January, 2002 amounting to HK$28,898,000.

7. Subject to completion of the Compromise Agreement having take place.

8. Number of Shares issued is based on 1,268,117,965 Shares in issue at the Latest Practicable Date plus the issue of 220,000,000 Subscription Shares to the Subscriber, resulting in a total number of 1,488,117,965 Shares upon Completion.

9. Number of Shares issued is based on 1,268,117,965 Shares in issue at the Latest Practicable Date plus the issue of 220,000,000 Subscription Shares to the Subscriber upon Completion and issue of 160,000,000 Shares upon full exercise of the Bonus Warrants, resulting in a total number of 1,648,117,965 Shares.

6. MATERIAL CHANGE

Save as disclosed in the Company's interim report for the six months ended 30th September, 2001, the pro forma statement of unaudited adjusted consolidated net tangible asset value of the Group, and the material contracts numbered (ii) to (xviii) as set out in the paragraph headed "Material Contracts" in Appendix V to this circular, the Directors are not aware of any material change in the financial or trading position of the Group since 31st March, 2001, the date to which the latest audited financial statements of the Company were made up.

7. INDEBTEDNESS

As at the close of business on 30th April, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has outstanding borrowings of approximately HK$62.2 million, comprising mortgage loan of approximately HK$10.4 million, obligations under finance leases of approximately HK$0.2 million, amounts due to an associate of approximately 1.7 million and convertible debentures of eBanker of approximately HK$49.9 million. The Group's mortgage loan were secured by certain leasehold properties and investment properties of the Group with net book value of HK$17.9 million and bank deposits of HK$4.2 million were pledged as security for the credit card business transactions with MasterCard International Inc.

In addition, the Group had contingent liabilities in respect of guarantees for an US associate for the dividend payment on Convertible Series B-1 Preferred Stock of approximately HK$5.1 million.

Save as aforesaid and disclosed under the section headed "Litigation" in Appendix V to this circular, and apart from the intra-group liabilities, none of the companies in the Group had outstanding at the close of business on 30th April, 2002 any mortgages, charges or debentures, loan capital, bank overdraft, loans, debt securities or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 30th April, 2002.

德勤・關黃陳方會計師行

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Deloitte
Touche
Tohmatsu

8th July, 2002

The Directors
Heng Fung Holdings Limited
Room 2601, 26th Floor
Island Place Tower
510 King's Road
North Point
Hong Kong

Dear Sirs,

INTRODUCTION

We have reviewed the unaudited consolidated loss after taxation and minority interests of Heng Fung Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the ten months ended 31st January, 2002 (the "Unaudited Consolidated Loss"). The Unaudited Consolidated Loss is set out in the section headed "Pro Forma Statement of Unaudited Adjusted Consolidated Net Tangible Asset Value" to the circular dated 8th July, 2002 issued by the Company in connection with the settlement of litigation, proposed issue of subscription shares with bonus shares and bonus warrants (connected transactions), application for whitewash waiver, amendment of articles and general mandate to issue and repurchase shares.

DIRECTORS' RESPONSIBILITIES

The Unaudited Consolidated Loss is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review of the Unaudited Consolidated Loss in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management of the Group and applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Consolidated Loss.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit:

- so far as the accounting policies and calculation are concerned, the Unaudited Consolidated Loss for the ten months ended 31st January, 2002 has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group; and

- we are not aware of any material modifications that should be made to the Unaudited Consolidated Loss for the ten months ended 31st January, 2002 as presented in the circular.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

Somerley Limited
Suite 3108
One Exchange Square
Central
Hong Kong

8th July, 2002

The Directors
Heng Fung Holdings Limited
Room 2601, 26th Floor
Island Place Tower
510 King's Road
North Point
Hong Kong

Dear Sirs,

We refer to the unaudited consolidated loss of Heng Fung Holdings Limited (the "Company") and its subsidiaries for the ten months ended 31st January, 2002 (hereinafter referred to as the "Unaudited Consolidated Loss") and the statement set out under the paragraph headed "Material Change" (the "Statement on Material Change"), for which the directors of the Company are solely responsible, contained in Appendix I to the circular of the Company dated 8th July, 2002.

We have discussed with you the assumptions upon which the Statement on Material Change has been made and the work you have carried out in arriving at the said statement, including a review of the material contracts set out in Appendix V of this circular. We have also discussed with you the accounting policies upon which the Unaudited Consolidated Loss have been prepared and we have also considered the letter dated 8th July, 2002 addressed to yourselves from Deloitte Touche Tohmatsu, the auditors of the Company. On the basis of the accounting policies adopted in preparing the Unaudited Consolidated Loss and the procedures performed in preparing the Statement on Material Change, we are satisfied that the Unaudited Consolidated Loss and the Statement on Material Change have been compiled by the directors of the Company with due care and objectivity.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. SABINE
Chairman

The followings are the texts of the letters and valuation certificates received from Sallmanns and addressed to the Directors in connection with its valuation as at 31st March, 2002 of the property interests of the Group:

Sallmanns (Far East) Ltd.
西門
PROPERTY CONSULTANTS, CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
HONG KONG ● PRC ● PHILIPPINES ● UK

8th July, 2002

The Directors
Heng Fung Holdings Limited
Unit 2601, Island Place Tower
510 King's Road
North Point
Hong Kong

Dear Sirs,

1. No. 326 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong

2. Unit A, 7th Floor, Good Luck Industrial Building, No. 105 How Ming Street, Kwun Tong, Kowloon, Hong Kong

3. Unit A, 11th Floor, Good Luck Industrial Building, No. 105 How Ming Street, Kwun Tong, Kowloon, Hong Kong

4. Car Parking Space No. P9, Ground Floor, Good Luck Industrial Building, No. 105 How Ming Street, Kwun Tong, Kowloon, Hong Kong

5. Car Paking Space Nos. 22, 23 & 24 on Lower Ground Floor, Inverness Villa, No. 22 Inverness Road, Kowloon Tong, Hong Kong

6. 20th Floor and Car Parking Space Nos. 10 & 11 on 3rd Floor, S U P Tower, No. 4 Mercury Street, Nos. 75, 77, 79, 81 & 83 King's Road, North Point, Hong Kong

7. Nos. 28 & 30 Kai Tak Road, Kowloon City, Kowloon, Hong Kong

8. Nos. 16, 18 & 20, Baker Street, Hunghom, Kowloon, Hong Kong

In accordance with the instructions from Heng Fung Holdings Limited (hereinafter referred to as the "Company") to value the above property interests which are more specifically described in the attached valuation certificates, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purposes of providing you with our opinion of the values of these property interests as at 31st March, 2002 for circular purposes.

Our valuations of property interests are our opinion of the open market value which we would define as intended to mean "the best price at which an interest in a property would have been completed unconditionally for cash consideration on the date of the valuation assuming:–

(a) a willing seller;

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

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

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

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

Our valuations have been made on the assumption that the owner sells the property interests on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests.

We have not been provided with copies of the title documents relating to the property interests but have caused searches to be made at the Land Registry in Hong Kong. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies handed to us.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property interests included in the attached valuation certificates, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been made, but in the course of our inspections we did not note any apparent serious defects. We are not, however, able to report that the property interests are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have relied to a considerable extent on the information provided to us and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, occupations, lettings, rentals, site and floor areas and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and have been assured by the directors that all such information is correct. We have also sought and received confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
BSc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 19 years of experience in the valuation of properties in the PRC and 22 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

	Property	Open market value in existing state as at 31st March, 2002 *HK$*	Interest attribute to the Group in percentage	Capital value attribute to the Group as at 31st March, 2002 *HK$*
1.	No. 326 Kwun Tong Road Kwun Tong Kowloon Hong Kong	12,600,000	52.86%	6,660,000
2.	Unit A, 7th Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	855,000	52.86%	452,000
3.	Unit A, 11th Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	838,000	52.86%	443,000
4.	Car Parking Space No. P9 Ground Floor Good Luck Industrial Building No. 105 How Ming Street Kwun Tong Kowloon Hong Kong	370,000	52.86%	196,000
5.	Car Parking Space Nos. 22, 23 & 24 on Lower Ground Floor Inverness Villa No. 22 Inverness Road Kowloon Tong Hong Kong	720,000	100%	720,000
6.	20th Floor and Car Parking Space Nos. 10 & 11 on 3rd Floor S U P Tower No. 4 Mercury Street Nos. 75, 77, 79, 81 & 83 King's Road North Point Hong Kong	11,860,000	52.86%	6,269,000

	Property	Open market value in existing state as at 31st March, 2002 *HK$*	Interest attribute to the Group in percentage	Capital value attribute to the Group as at 31st March, 2002 *HK$*
7.	Nos. 28 & 30 Kai Tak Road Kowloon City Kowloon Hong Kong	23,200,000	52.86%	12,264,000
8.	Nos. 16, 18 & 20 Baker Street Hunghom Kowloon Hong Kong	18,700,000	52.86%	9,885,000
			Total:	36,889,000

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
1. No. 326 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland Lot No.548)	The property comprises a 7-storey industrial building completed in about 1973. The property has a registered site area of approximately 3,273 sq.ft. (304 sq.m.) and a gross floor area of approximately 21,939 sq.ft. (2,038 sq.m.). The property is held under a Government Lease for a term of 99 years from 1st July, 1898 less the last 3 days thereof and is extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988. The annual government rent payable for the lot is 3% of the current rateable value.	The property is currently occupied for warehouse and ancillary office purposes except for the Ground Floor which is currently licensed to a third party for car parking purposes for a term of 6 months commencing from 1st November, 1998, and thereafter on a monthly basis, at a monthly license fee of $12,000.	12,600,000 (52.86% interest attribute to the Group: HK$6,660,000)

Notes:

1. The registered owner of the property is Iwai's Holdings (Hong Kong) Limited, a 52.86% subsidiary of the Company.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
2. Unit A on 7th Floor, Good Luck Industrial Building, No.105 How Ming Street, Kwun Tong, Kowloon, Hong Kong (23/1126th shares of and in Kwun Tong Inland Lot No.22)	The property comprises a workshop unit on the 7th floor of a 14-storey industrial building completed in about 1981. The property has a gross floor area of approximately 2,329 sq.ft. (216 sq.m.) and a saleable area of approximately 1,669 sq.ft. (155 sq.m.). The property is held under a Government Lease for a term of 21 years from 1st July, 1955 with an option to renew for a further term of 21 years less the last 3 days thereof and is extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988. The annual government rent payable for the lot is 3% of the current rateable value.	The property is currently vacant.	855,000 (52.86% interest attribute to the Group: HK$452,000)

Notes:

1. The registered owner of the property is Iwai's Holdings (Hong Kong) Limited, a 52.86% subsidiary of the Company.

2. The property is subject to a Deed of Mutual Covenant vide memorial no. 2066634 dated 23rd March, 1981.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
3. Unit A on 11th Floor, Good Luck Industrial Building, No.105 How Ming Street, Kwun Tong, Kowloon, Hong Kong (23/1126th shares of and in Kwun Tong Inland Lot No.22)	The property comprises a workshop unit on the 11th floor of a 14-storey industrial building completed in about 1981. The property has a gross floor area of approximately 2,329 sq.ft. (216 sq.m.) and a saleable area of approximately 1,669 sq.ft. (155 sq.m.). The property is held under a Government Lease for a term of 21 years from 1st July, 1955 with an option to renew for a further term of 21 years less the last 3 days thereof and is extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988. The annual government rent payable for the lot is 3% of the current rateable value.	The property is currently rented to a third party for a term of 3 years commencing from 1st June, 1999 at a monthly rental of HK$9,000 exclusive of rates.	838,000 (52.86% interest attribute to the Group: HK$443,000)

Notes:

1. The registered owner of the property is Iwai's Holdings (Hong Kong) Limited, a 52.86% of the Company.

2. The property is subject to a Deed of Mutual Covenant vide memorial no. 2066634 dated 23rd March, 1981.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
4. Car Parking Space No. P9 on Ground Floor, Good Luck Industrial Building, No.105 How Ming Street, Kwun Tong, Kowloon, Hong Kong (2/1126th shares of and in Kwun Tong Inland Lot No.22)	The property comprises a private car parking space on the ground floor of a 14-storey industrial building completed in about 1981. The property is held under a Government Lease for a term of 21 years from 1st July, 1955 with an option to renew for a further term of 21 years less the last 3 days thereof and is extended until 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988. The annual government rent payable for the lot is 3% of the current rateable value.	The property is currently licensed to a third party at a monthly fee of HK$1,500 for car parking purposes.	370,000 (52.86% interest attribute to the Group: HK$196,000)

Notes:

1. The registered owner of the property is Iwai's Holdings (Hong Kong) Limited, a 52.86% subsidiary of the Company.

2. The property is subject to a Deed of Mutual Covenant vide memorial no. 2066634 dated 23rd March, 1981.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
5. Car Parking Space Nos. 22, 23 & 24 on Lower Ground Floor, Inverness Villa, No. 22 Inverness Road, Kowloon Tong, Hong Kong 3/326th shares of and in New Kowloon Inland Lot No. 5619	The property comprises three covered car parking spaces on the lower ground floor of a 5-storey residential building constructed over a 2-storey car port podium, which was completed in about 1977. The property is held under a Government Lease for a term of 24 years commencing from 1st July 1973. The term of the Government lease is being extended to 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance 1988.	The property is currently subject to licence agreements and the details are set out in the Notes below.	720,000 (100% interest attribute to the Group: HK$720,000)

Notes:

1. The registered owner of the property is Heng Fung Holdings Limited.

2. Car Parking Space No. 22 is subject to a licence agreement for a term of 1 year commencing from 1st June, 2001 at a monthly licence fee of HK$2,000 inclusive of management charges and Government rent and rates.

3. Car Parking Space No. 23 is subject to a licence agreement for a term of 1 year commencing from 1st October, 2001 at a monthly licence fee of HK$2,000 inclusive of management charges and Government rent and rates.

4. Car Parking Space No. 24 is subject to a licence agreement for a term of 1 year commencing from 1st April, 2001 at a monthly licence fee of HK$2,000 inclusive of management charges and Government rent and rates and will subject to another licence agreement for a term of 1 year commencing from 1st April, 2002 at a monthly licence fee of HK$2,000 inclusive of management charges and Government rent and rates.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
6. 20th Floor and Car Parking Space Nos. 10 & 11 on 3rd Floor, S U P Tower, No. 4 Mercury Street, Nos. 75, 77, 79, 81 & 83 King's Road, North Point, Hong Kong (69/1835th shares of and in the Remaining Portion, Sub-section 10 and Sub-section 9 all of Section F, Section G and Section H of Inland Lot No. 1366)	The property comprises the whole 20th floor and two car parks on the 3rd floor of a 30-storey commercial building equipped with 4 car parking levels and a ground shop level completed in about 1993. The property has a total saleable area of approximately 4,243 sq.ft. (394 sq.m.). The property is held under a Government Lease for a term of 999 years commencing from 24th February, 1896.	The property is tenanted, details of which are described in Note 3 below.	11,860,000 (52.86% interest attribute to the Group: HK$6,269,000)

Notes:

1. The registered owner of the property is Faith Profit Limited, a 52.86% subsidiary of the Company.

2. The property is subject to a Deed of Mutual Covenant and Management Agreement vide memorial no. 5586904 dated 23rd February, 1993.

3. The 20th Floor of the subject property is sub-divided into 4 units numbered 1 to 4 which are subject to the following leases:

   i. Unit nos. 1 to 3 with saleable area of about 2,681 sq.ft. are subject to a tenancy agreement dated 30th December, 1999 entered into between Faith Profit Limited and Richards Hogg Lindley (HK) Limited, for a term of 2 years and six months commencing from 1st January 2000 at a monthly rental of HK$42,000 exclusive of Government rent, rates and management fees.

   ii. Unit no. 4 with a saleable area of about 1,110 sq.ft. is subject to a tenancy agreement dated 25th May, 2001 entered into between Faith Profit Limited and Richards Hogg Lindley (HK) Limited, for a term of 3 years commencing from 1st June, 2001 at a monthly rental of HK$16,852.50 exclusive of Government rent, rates and management fees.

4. The car parking space no. 10 is subject to a licence agreement for a term of 1 year commencing from 1st May, 2001 at a monthly licence fee of HK$1,800 inclusive of management charges and Government Rates.

5. As instructed by the client, our valuation is made under the assumption of vacant possession. At the rental passing, a yield of some 6% is suggested, which we consider reasonable for a property of this nature.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
7. Nos. 28 & 30 Kai Tak Road, Kowloon City, Kowloon, Hong Kong (The Remaining Portions of New Kowloon Inland Lots Nos. 466 & 490)	The property comprises a site with a total site area of about 1,800 sq.ft. (167 sq.m.). The site is scheduled to be developed into a commercial/ residential building. The maximum permitted total gross floor area of the building is approximately 13,500 sq.ft. (1,254 sq.m.). The property is held under a Government Lease for a term of 75 years commencing from 1st July, 1898 renewable for 24 years. The term of the Government lease has been extended to 30th June, 2047 under Section 6 of the New Territories Leases (Extension) Ordinance (Cap. 150).	The property has been licensed out as carpark under a license agreement as described in Note 3 below.	23,200,000 (52.86% interest attribute to the Group: HK$12,264,000)

Notes:

1. The registered owner of the property is Wellgem Asia Limited, a 52.86% subsidiary of the Company.

2. The property is a Class A site and falls within an area which is designated as "R(A)" (Residential (GroupA)) in Kowloon Planning Area No.10 – Ma Tau Kok Outline Zoning Plan No. S/K10/14 dated 19th October, 2001.

3. The property is subject to a monthly license agreement entered into between Wellgem Asia Limited and Queen's Parking (HK) Ltd., at a license fee of HK$5,000 per month terminable by either party serving the other by one month prior written notice.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 31st March, 2002 *HK$*
8. Nos. 16, 18 & 20 Baker Street, Hunghom, Kowloon, Hong Kong (The Remaining Portion of Section A and the Remaining Portion of Section B both of Sub-section 1 and the Remaining Portion of Section A of Sub-section 2 all of Section A of Hung Hom Inland Lot No. 239)	The property comprises a site with a total site area of about 2,183 sq.ft. (203 sq.m.). The site is scheduled to be developed into a commercial/ residential building. The maximum permitted total gross floor area of the proposed building is approximately 16,373 sq.ft. (1,521 sq.m.). The property is held under a Government Lease for a term of 75 years commencing from 1st January, 1901 renewable for 75 years.	The property has been licensed out as carpark under a license agreement as described in Note 3 below.	18,700,000 (52.86% interest attribute to the Group: HK$9,885,000)

Notes:

1. The registered owner of the property is Luckford Enterprise Limited, a 52.86% subsidiary of the Company.

2. The property is a Class A site and falls within an area which is designated as "R(A)" (Residential (GroupA)) in Kowloon Planning Area No.9 – Hung Hom Outline Zoning Plan No. S/K9/14 dated 24th August, 2001.

3. Pursuant to a license agreement dated 24th September, 1997 entered into between Luckford Enterprise Limited, Trinifaith Company Limited and Polywise Investment Limited (the "Licensor") and Queen's Parking (HK) Ltd. (the "Licensee"), the vacant site at nos. 16-20 of Baker Street is licensed to the Licensee at a license fee of HK$25,000 per month terminable by either party serving the other one month prior written notice. The proportion of the license fee received by the Licensor in respect of the subject property is about HK$18,750 per month.

Johnston, Ross & Cheng Ltd.

Real Estate Professionals

8th July, 2002

The Directors
Heng Fung Holdings Limited
2601 Island Place Tower
510 King's Road,
North Point
Hong Kong

Dear Sirs,

Re: 1281 ALBERNI STREET, VANCOUVER, B.C.

In accordance with your request, we are pleased to provide this executive summary of our appraisal of the above-noted property. This summary is intended to be read in conjunction with our appraisal report.

The subject consists of a three-year-old, strata-titled, three-level attached townhouse unit in the *West End* area of the Vancouver Downtown District. The exterior of the property was briefly inspected on 19th April, 2002, at which time the subject was found to be in good condition. No interior inspection was completed in compliance with your request; hence, interior finishes are presumed to be of similar quality and condition as observed at the exterior.

Based upon our inspection and analysis of the available data, it is our conclusion that the market value range of the subject property under an unencumbered and marketable title as described was between **C$500,000** and **C$520,000**.

In the preparation of this appraisal, we investigated a number of sales and listings of strata-titled townhouse units in the Vancouver Downtown District. In addition, we interviewed a number of participants in the marketplace, including agents, purchasers, brokers, appraisers and public officials, as well as reviewing sales information provided by reporting agencies such as the Real Estate Board of Greater Vancouver, and Mr. Simon Yau, representing Heng Fung Capital (Canada) Limited, a subsidiary of Heng Fung Holdings Limited.

The analysis set out in this report is based upon written and oral information obtained from a variety of sources we considered to be reliable. Unless otherwise stated, we did not verify information supplied by the client which we believe to be correct. The mandate for this appraisal did not require a report prepared to the standards appropriate for court purposes or for arbitration; therefore, we did not fully document or confirm by reference to primary sources all information.

The term *"market value"* is defined in the CANADIAN UNIFORM STANDARDS as *"the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming* *the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from buyer to seller under conditions whereby:*

(a) buyer and seller are typically motivated;

(b) both parties are well informed or well advised, and acting in what they consider to be their best interests;

(c) a reasonable time is allowed for exposure in the open market;

(d) payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and,

(e) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

The value estimate refers to the fee simple of the subject property at the date of inspection. Fee simple is defined by the Appraisal Institute of Canada as:

"The greatest interest an individual can own in land, or complete ownership in law, subject only to the government powers of taxation, expropriation, escheat and police power."

We have not obtained a title search to the subject nor is it within the scope of this report to render an opinion on the validity or effects of any charges. Our value estimate is based upon the assumption that all financial charges had been removed (if any), and that the subject property could be offered for sale as if free and clear of any registered or unregistered encumbrances which might otherwise have an effect on the marketability and/or value of the property.

The reader is urged to obtain independent legal advice on the condition of title, and we reserve the right to amend this value estimate if other conditions are found to exist.

We did not undertake site surveys, inspections or engineering reviews of the soils or utility servicing, soils, archaeological, environmental or hydrological studies, or an investigation to the extent of subsurface oil, gas or mineral rights. Our value estimate is based upon the assumption that there are no hidden or unusual soil conditions present (particularly in terms of contaminants) which would impair the utility or value of the land.

Possession of this report, or a copy of it, does not convey the right of publication. All copyright is reserved to the author and this report is considered confidential by the author and his client, Heng Fung Capital (Canada) Inc. with a parent company registered under Heng Fung Holdings Limited in Hong Kong. It shall not be disclosed, quoted from or referred to, in whole or in part, or published in any manner without the express written consent of the appraiser, subject only to confidential review by the APPRAISAL INSTITUTE OF CANADA as provided in the Code of Ethics, Standards of Professional Conduct and Standards of Professional Practice of the Institute. Therefore, the report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.

Respectfully submitted,
JOHNSTON, ROSS & CHENG LTD.,
Edward Y.F. Chan, *CRA, RI(BC), FRI(A)*

VALUATION SUMMARY

Property	:	1281 Alberni Street, Vancouver, B.C. Canada
Legal Description	:	Strata Lot 7, District Lot 185, Land District 36, Strata Plan LMS3094
Roll Number	:	026-600-117-08-0007
P.I.D.	:	024-029-599
Approximate Size of Unit	:	1,572 Sq.Ft. or 146.1 m^2
Tenure	:	Fee Simple, Condominium
Registered Owner	:	Heng Fung Capital Canada Inc.
Zoning	:	According to the City Master Plan, the subject property is zoned RM-5 Multi-Family Residential
Brief Description of the Subject Property	:	The subject property is located on the north side of Alberni Street near Jervis Street within the "West End" area of downtown Vancouver and is situated in "The Residence On Georgia" development. It comprises two high-rise apartment towers, 17 townhouse units and a completely renovated heritage house. The subject is a split level townhouse unit of good quality concrete construction. It is our understanding that the unit is currently tenant occupied and we will assumed the unit is in good condition. The estimated remaining economic life of the structure is +/-52 years.
Approximate Age	:	Three years
Market Value Range as at 19th April, 2002	:	Between C$500,000 and C$520,000

OrangeTee.com

8th July, 2002

The Directors
Heng Fung Holdings Limited
2601 Island Place Tower
510 King's Road
North Point
Hong Kong

Dear Sirs,

VALUATION OF PROPERTY AT 35 NORTH CANAL ROAD SINGAPORE 059291

In accordance with your instructions, we have inspected the above-mentioned property ("the subject property"), made the relevant searches and enquiries and obtained further information as we consider necessary in order to provide you with the Open Market Value as at 31st March, 2002.

Our valuation is prepared in accordance with our 'Limiting Conditions' adopted in the preparation of Valuations and Reports, a copy of which is attached.

Our valuation of the property is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:–

(a) a willing seller;

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

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

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

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

Our valuation is made on the assumption that the owner sells the property in the open market without the benefit of deferred terms, contract, lease back, joint venture, management agreement or any similar agreement which could serve to affect the value of the property.

In arriving at our opinion of value, we have also relied on the evidence of title and other information provided by eCredit Singapore Pte Limited, a 98.6% subsidiary of Heng Fung Holdings Limited.

A summary of our valuation and brief details relating to the subject property is set out on page 112 of this circular.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property, nor for any expenses or taxation which may incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have not carried out investigations on site in order to determine the suitability of ground conditions and services for the existing and proposed developments, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory.

Due to time constraints, we have not applied for the official Legal Requisition for Road Line Plan and Drainage Reserves for the subject property as this is outside our terms of reference. Our valuation is therefore made on the assumption that the property is not adversely affected by any approved/proposed road/drainage schemes. It is recommended that the valuation be referred back to us for a review should your solicitors subsequently discover the existence of any such schemes after legal requisitions with the various competent authorities have been completed by them.

Neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this valuation is for the use of Heng Fung Holdings Limited only. No responsibility is accepted to any other third party for the whole or any part of its contents.

Yours faithfully,
ORANGETEE.COM PTE LTD
Chew May Yenk
B.Sc (Estate Management)
Appraiser's Licence No. AD041-2004419H

Note: Ms. Chew May Yenk is a Licenced Apprasier registered with the Inland Revenue Authority of Singapore. She has 15 years of experience in the valuation of properties in Singapore.

LIMITING CONDITIONS

This property Valuation and Report has been prepared subject to the following limiting conditions:–

BASIS OF VALUATION

Our valuation is made on the basis of Open Market Value / Rental. This is intended to mean the best price / rental at which the sale / tenancy of any interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:–

a) a willing seller / landlord;

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

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

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

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

No allowances are made for any expenses or realisation or for taxation which might arise in the event of a disposal. Our valuation assumes that as at the date of valuation, the property is free and clear of all mortgages, encumbrances and other outstanding premiums, charges and liabilities.

CONFIDENTIALITY

Our Valuation and Report is confidential to the party to whom it is addressed for the specific purpose to which it refers. The valuer disclaims all responsibility and will accept no liability to any other party. Neither the whole, nor any part, nor reference thereto may be published in any document, statement or circular, nor in any communication with third parties, without our prior written consent of the form and context in which it will appear.

SOURCE OF INFORMATION

Where it is stated in the report that information has been supplied to the valuer by the sources listed, this information is believed to be reliable, the valuer will accept no responsibility if this should prove otherwise. All other information stated without being attributed directly to another party is obtained from our searches of records and examination of documents or enquiries with the relevant government authorities.

TENANTS

Enquiries as to the financial standing of actual or prospective tenants are not normally made unless specifically requested. Where properties are valued with the benefit of lettings, it is therefore assumed that the tenants are capable of meeting their obligations under the tenancy and that there are no arrears of rent or undisclosed breaches of covenant.

TOWN PLANNING AND OTHER STATUTORY REGULATIONS

Information on Town Planning is obtained from the existing Master Plan, Development Guide Plan (DGP) and Written Statement published by the competent authority. Unless otherwise instructed, we will not carry out requisitions with the various public authorities to confirm that the property is not adversely affected by any public schemes. If assurance is required, we recommend that verification be obtained from your lawyers.

Our valuations are prepared on the basis that the premises and any improvements thereon comply with all relevant statutory regulations. It is assumed that they have been, or will be issued with a Certificate of Statutory Completion by the competent authority.

STRUCTURAL SURVEYS

Unless expressly instructed, we do not carry out a structural survey, nor do we test the services. Whilst any defects or items of disrepair which we note during the course of our inspection will be reflected in our valuations, we are not able to give any assurance in respect of rot, termite, or pest infestation or other hidden defects.

SITE CONDITIONS

We do not normally carry out investigations on site in order to determine the suitability of the soil conditions, and the services, for any new development. Unless we are otherwise informed, our valuation is on the basis that these aspects are satisfactory and that where development is proposed, no extraordinary expenses or delays will be incurred during the construction period.

COURT ATTENDANCE

The valuer is not obliged to give testimony or to appear in court with respond to this report, unless specific arrangement has been made therefore.

VALUATION SUMMARY

Property	:	35 North Canal Road Singapore 059291
Legal Description	:	Lot No. 99339T Town Subdivision 7
Site Area	:	156.2 sq.m.
Floor Area	:	310.6 sq.m. – according to on-site measurements and are approximates only.
Tenure	:	99 years lease commencing from 1st January, 1948.
Registered Proprietor	:	eCredit Singapore Pte. Limited
Encumbrance	:	Mortgage to United Overseas Bank Limited.
Town Planning	:	According to the Master Plan (1998 Edition), the subject property is zoned 'Commercial'.
Brief Description of the subject property	:	The subject property is a 4-storey intermediate shophouse. The subject property is constructed of reinforced concrete frame plastered brickwalls, reinforced concrete staircases and a reinforced concrete flat roof. Fenestration generally comprises aluminium casement/sliding/louvred/top-hung glass windows. The subject property is generally in a good condition at the time of inspection.
Age	:	About 40 – 50 years old.
Open Market Value as at 31st March, 2002	:	S$1,250,000 (Singapore Dollars One Million Two Hundred And Fifty Thousand Only).

COLLIERS
INTERNATIONAL

8th July, 2002

The Directors
Heng Fung Holdings Limited
510 King's Road, North Point
Hong Kong

Dear Sirs,

VALUATION OF PROPERTY AT 981 NELSON STREET, VANCOUVER, BC

In accordance with your instructions, we have inspected the above-mentioned property ('the subject property'), made the relevant searches and enquiries and obtained further information as we consider necessary in order to provide you with the Open Market Value as at 31st March, 2002.

Our valuation is prepared in accordance with our 'Limiting Conditions' adopted in the preparation of Valuations and Reports, a copy if which is attached.

Our valuation of the subject property is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:–

(a) a willing seller;

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

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

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

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

Our valuation is made on the assumption that the owner sells the property in the open market without the benefit of deferred terms, contract, lease back, joint venture, management agreement or any similar agreement which could serve to affect the value of the property.

In arriving at our opinion of value, we have also relied on the evidence of title and other information provided by Heng Fung Capital (Canada) Inc., a subsidiary of Heng Fung Holdings Limited.

A summary of our valuation and brief details relating to the subject property is set out on page 115 of this circular.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the subject property, nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the subject property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have not carried out investigations on site in order to determine the suitability of ground conditions and services for the existing and proposed developments, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory.

Due to time constraints, we have not applied for the official architectural, structural, as built, planning files, and roads and servicing records for the subject property as this is outside our terms of reference. Our valuation is therefore made on the assumption that the property is not adversely affected by any approved/proposed road/drainage schemes. It is recommended that the valuation be referred back to us for a review should your solicitors subsequently discover the existence of any such schemes after legal requisitions with the various competent authorities have been completed by them.

This letter and valuation certificate has been prepared for the purpose of inclusion in a circular of Heng Fung Holdings Limited to be sent to its shareholders.

Finally and in accordance with our standard practice, we must state that this valuation is for the use of Heng Fung Holdings Limited only. No responsibility is accepted to any other third party for the whole or any part of its contents.

Yours faithfully,
COLLIERS INTERNATIONAL REALTY ADVISORS INC.
Reviewed by:

John K. Henrey	**KEN HOLLETT,**
B.Comm., RI(BC)	*B. Com., RI(BC), AACI, P.App*
Appraisal Consultant	Senior Appraisal Consultant

VALUATION SUMMARY

Property	:	981 Nelson Street, Vancouver, British Columbia, Canada
Legal Description	:	Strata lots 359-390, District Lot 541, Group 1, New Westminster District, Strata Plan LMS1866
Site Area	:	4,330 sq.m. approx.
Floor Area	:	886.4 sq.m. – according to plan measurements and are approximates only.
Tenure	:	Freehold – Strata titled .
Registered Proprietor	:	Global Growth Management Inc.
Encumbrance	:	Mortgage to North Shore Credit Union.
Town Planning	:	According to the Zoning Schedule, the subject property is zoned Comprehensive Development (CD-1).
Brief Description of the subject property	:	The subject property is a single-storey ground floor school/office unit. The subject property is constructed of steel frame and reinforced concrete floor and wall structure with, reinforced concrete staircases and a reinforced concrete flat roof. Fenestration generally comprises tile and paint exterior aluminum casement glass doors and windows. Interior office and classroom finishes are above average. The subject property is in a generally good condition at the time of inspection.
Age	:	About 40 years old.
Open Market Value (as at 31st March, 2002)	:	C$1,700,000 (Canadian Dollars One Million Seven Hundred Thousand Only).

The Bonus Warrants will be issued in registered form subject to, and with the benefit of, the terms and conditions of the Subscription Agreement dated 27th May, 2002 between the Company and Prime Star Group Co., Ltd. and the Warrant Certificates (as defined below) which will be enforceable by each holder of the Bonus Warrants ("Warrantholder") and shall form one class and rank pari passu in all respects with each other.

The principal terms and conditions of the Bonus Warrants will be set out in the certificates for the Bonus Warrants ("Warrant Certificates"), and include provisions to the effect set out below. Warrantholders will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions.

1. Subscription Rights

(a) The registered holder for the time being of each Warrant will have the right ("Subscription Right") at any time during the two years from the date of issue of the Bonus Warrants to the last day of such two year period (both dates inclusive) ("Subscription Period") (the close of business on any business day falling within the Subscription Period on which any of the Subscription Rights are duly exercised is called a "Subscription Date") to subscribe in aggregate for 80,000,000 Shares ("New Shares") at a price of HK$0.25 per Share (subject to adjustment as referred to below) ("Warrant Exercise Price") pursuant to the Bonus Warrants on the basis of one Share for one Bonus Warrant.

After the expiry of the Subscription Period, any Subscription Rights which have not been exercised in respect of the Bonus Warrants will lapse and the relevant Warrant Certificates will cease to be valid for any purpose whatsoever after such date.

(b) The entitlement of the Warrantholders to their Bonus Warrants will be evidenced by Warrant Certificates, each of which will contain a subscription form ("Subscription Form"). In order to exercise his Subscription Rights, a Warrantholder must complete and sign the Subscription Form (which will be irrevocable) and deliver the same and the Warrant Certificates to the Company, together with a remittance for the Exercise Moneys (as defined in the Warrant Certificates), being the total amount of the Warrant Exercise Price multiplied by the number of New Shares to be issued upon exercise of the Bonus Warrants. Compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.

(c) One new Share ("Warrant Bonus Share") shall be allotted and issued in respect of each New Share subscribed by the Warrantholder upon exercise of the Bonus Warrant, credited as fully paid by way of a capitalisation of an amount up to an aggregate of HK$20,000,000 standing to the credit of the share premium account of the Company in respect of all the Bonus Warrants.

(d) Any Shares falling to be issued upon the exercise of the Subscription Rights will be issued and allotted not later than 10 business days after the relevant Subscription Date taking into account any adjustment which may have been made pursuant to Paragraph 3 of the Warrant Certificates and will rank pari passu with the Shares in issue on the relevant Subscription Date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made after the relevant Subscription Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date (as defined in the

Warrant Certificates) therefor shall be on or before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange prior to the relevant Subscription Date.

(e) As soon as practicable after the relevant allotment and issue of the New Shares and the Warrant Bonus Shares (and, in any event not later than 10 business days after the relevant Subscription Date) there will be issued free of charge to the Warrantholder(s) to whom such allotment has been made upon his exercise of any Subscription Rights:

(i) a certificate (or certificates) for the relevant New Shares and Warrant Bonus Shares in the name(s) of such Warrantholder(s);

(ii) (if applicable) a balancing Warrant Certificate in registered form in the name(s) of such Warrantholder(s) in respect of any Subscription Rights represented by the Warrant Certificate(s) remaining unexercised;

(iii) (if applicable) the certificate mentioned in Paragraph 4.1.4 of the Warrant Certificates.

The certificate(s) for New Shares and the Warrant Bonus Shares arising on the exercise of the Subscription Rights, the balancing Warrant Certificate (if any) and the certificate mentioned in Paragraph 4.1.4 of the Warrant Certificates (if any) will be sent by post at the risk of such Warrantholder(s) to the address of such Warrantholder(s) or (in the case of a joint holding) to the Warrantholder whose name stands first in the register of Warrantholders. If the Company agrees, such certificates and cheques may by prior arrangement be retained by the Company to await collection by the relevant Warrantholder(s).

2. Adjustments to the Warrant Exercise Price

The Warrant Certificates contain detailed provisions relating to the adjustment of the Warrant Exercise Price. The following is a summary of, and is subject to, the adjustment provisions of the Warrant Certificates:

(a) The Warrant Exercise Price will (except as mentioned in sub-paragraphs (b), (c) and (d) below) be adjusted as provided in the Warrant Certificates in each of the following cases (but shall however not be adjusted below the nominal value of Shares until the Subscription Right Reserve (as defined in the Warrant Certificates) is maintained pursuant to Paragraph 4 of the Warrant Certificates):

(i) an alteration of the nominal amount of the Shares by reason of any consolidation or sub-division;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account);

(iii) a capital distribution (as defined in the Warrant Certificates) being made by the Company whether on a reduction or redemption of capital or otherwise, except pursuant to a purchase by the Company of Shares, to holders of Shares (in their capacity as such);

(iv) a grant by the Company to the holders of Shares (in their capacity as such) of rights to acquire for cash assets of the Company or any of its Subsidiaries (as defined in the Warrant Certificates);

(v) an offer of new Shares for subscription by way of rights or a grant of options or warrants to subscribe for new Shares at a price which is less than 90 per cent. of the market price (calculated as provided in the Warrant Certificates) being made by the Company to holders of Shares (in their capacity as such);

(vi) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Warrant Certificates) per new Share is less than 90 per cent. of the market price (calculated as provided in the Warrant Certificates), or the terms of any such issue being altered so that the said total Effective Consideration is less than 90 per cent. of the market price;

(vii) an issue being made by the Company wholly for cash of Shares at a price less than 90 per cent. of the market price (calculated as provided in the Warrant Certificates); and

(viii) a repurchase by the Company of Shares or securities convertible into Shares or any rights to subscribe for Shares in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Warrant Exercise Price.

(b) Except as mentioned in sub-paragraph (c) below, no such adjustment as is referred to in sub-paragraph (a) above will be made in respect of:

(i) an issue of fully-paid Shares (including the Warrant Bonus Shares) upon the exercise of any conversion rights attaching to securities convertible into Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;

(ii) an issue by the Company of Shares or by the Company or any Subsidiary of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;

(iii) an issue of fully-paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (or other profits or reserves) to be established in certain circumstances subject and pursuant to the terms and conditions contained in the Warrant Certificates (or any similar reserve which has been or may be established pursuant to the terms of issue of any other securities convertible into or carrying rights to acquire Shares);

(iv) an issue of Shares in lieu of a cash dividend where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated as provided in the Warrant Certificates) of such Shares is not more than 110 per cent. of the amount of dividend which holders of Shares could elect to or would otherwise receive in cash; or

(v) an issue by the Company of Shares or by the Company or any Subsidiary of securities convertible into, or exchangeable for, or carrying rights of subscription for, Shares pursuant to a Share Option Scheme (as defined in the Warrant Certificates).

(c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above, in any circumstances where the Directors shall consider that an adjustment to the Warrant Exercise Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Warrant Exercise Price should be made notwithstanding that no such adjustment is required under the said provisions, the Company may appoint an approved merchant bank (as defined in the Warrant Certificates) to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis) as shall be certified by such approved merchant bank to be in its opinion appropriate.

(d) Any adjustment to the Warrant Exercise Price will be made to the nearest one cent (HK$0.005 being rounded up). No adjustment shall be made to the Warrant Exercise Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward. No adjustment will be made (except on a consolidation of Shares or upon a repurchase of Shares) which would increase the Warrant Exercise Price.

(e) Every adjustment to the Warrant Exercise Price will, save as otherwise expressly provided in the Warrant Certificates, be certified to be fair and appropriate by either (at the option of the Company) the auditors of the Company or an approved merchant bank and notice of such adjustment (giving the relevant particulars) will be given to the Warrantholders. In giving any certificate or making any adjustment hereunder, the auditors or the approved merchant bank shall be deemed to be acting as experts and not as arbitrators and, in the absence of manifest errors, their decision shall be conclusive and binding on the Company and the Warrantholders and all persons claiming through or under them respectively. Any such certificates of the auditors or approved merchant bank will be available for inspection at the Company's principal place of business for the time being in Hong Kong, where copies may be obtained.

3. Registered Bonus Warrants

The Bonus Warrants will be issued in registered form. The Company will be entitled to treat the registered holder of the Bonus Warrants as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or as required by law, be bound to recognise any equitable or other claim to or interest in such Bonus Warrants on the part of any other person, whether or not it shall have express or other notice thereof.

4. Transfer, Transmission and Register

The Bonus Warrants may be assigned or transferred to any person. Transfers of Bonus Warrants must be executed by both the transferor and the transferee. The provisions of the articles of association of the Company relating to the registration and transfer of Shares shall, mutatis mutandis, apply to the registration and transfer of the Bonus Warrants.

5. Closure of Register of Warrantholders

The registration of transfers may be suspended and the register of Warrantholders may be closed at such times and for such periods as the Directors may from time to time direct, provided that the same shall not be closed for a period longer in aggregate than 30 days in any one year. Any transfer or exercise of the Subscription Rights attached to the Bonus Warrants made while the register of Warrantholders is so closed shall, as between the Company and the person claiming under the relevant transfer of Bonus Warrants (but not otherwise), be considered as made immediately after the reopening of the register of Warrantholders.

6. Meetings of Warrantholders

The Warrant Certificates contain provisions for convening meetings of Warrantholders, including, without limitation, any matter to do with convening notice, appointment of proxies, attendance, adjournment, conduct, voting and recording proceedings in relation to meetings of Warrantholders. The equivalent provisions of the Company's articles of association for the time being relating to meetings of holders of Shares shall apply, mutatis mutandis, to meetings of Warrantholders and shall have full effect as if the same had been incorporated therein.

7. Call

If at any time the aggregate number of the Bonus Warrants outstanding is equal to or less than 10 per cent. of the total number of the Bonus Warrants issued, then the Company may, on giving not less than three months' notice to the Warrantholders, require the Warrantholders either to exercise their Subscription Rights or to allow them to lapse. On expiry of such notice, all unexercised Bonus Warrants will be automatically cancelled without compensation to the Warrantholders.

8. Notices

The Warrant Certificates contain provisions relating to notices to be given to Warrantholders and the following provisions shall apply to such notices:

(a) every Warrantholder shall register with the Company an address either in Hong Kong or elsewhere to which notices to be given to such Warrantholder are to be sent and if any Warrantholder shall fail so to do notice may be given to such Warrantholder by sending the same in any of the manners hereinafter mentioned to his last known place of business or residence or, if there be none, by posting the same for three days at the principal place of business of the Company in Hong Kong;

(b) a notice may be given by delivery, prepaid letter (airmail in the case of an overseas address), cable or telex message or alternatively, a notice may be given by paid advertisement published in English in one leading English language newspaper in Hong Kong and in Chinese in one leading Chinese language newspaper in Hong Kong; and

(c) all notices with respect to any Bonus Warrants standing in the names of joint holders shall be given to whichever of such persons is named first in the register of Warrantholders and notice so given shall be sufficient notice to all the holders of such Bonus Warrants.

9. Overseas Warrantholders

The Warrant Certificates contain provisions giving certain discretion to the Directors in the case of any Warrantholder who has a registered office or address in any territory (other than Hong Kong) where, in the opinion of the Directors, the issue of Shares upon exercise of any of the Subscription Rights attached to any Bonus Warrants held by such Warrantholder may be unlawful or impracticable.

10. Governing Law

The Bonus Warrants will be governed by and construed in accordance with the laws of Hong Kong.

This Appendix serves as an explanatory statement as required, pursuant to Rule 10.06(1)(b) of the Listing Rules, to be given to Shareholders in order for them to consider the Repurchase Mandate. It also forms a memorandum of the terms of the Repurchase Mandate given under section 49BA(3)(b) of the Companies Ordinance.

(a) Stock Exchange Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Company's memorandum of association and articles of association and the Companies Ordinance. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases by the Company may be made out of capital paid up on the shares to be repurchased, funds of the Company which would otherwise be available for dividend or distribution or out of a fresh issue of shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of the funds of the Company which would otherwise be available for dividend or distribution or from sums standing to the credit of the share premium account of the Company.

(iii) Trading restrictions

The total number of shares which a company may repurchase on the Stock Exchange is shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, the repurchases of securities on the Stock Exchange in any calendar month are limited to a maximum of 25% of the trading volume of such securities on the Stock Exchange in the immediately preceding calendar month. The Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under the Companies Ordinance, a company's repurchased shares will be treated as cancelled.

(v) Suspension of repurchase

A company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of its interim report, a company (other than an investment company listed pursuant to the provisions of Chapter 21 of the Listing Rules) may not repurchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a company has breached the Listing Rules.

(vi) Reporting requirements

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased and the aggregate prices paid.

(vii) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or any of their associates (as defined in the Listing Rules) and a connected person shall not knowingly sell his securities to the company on the Stock Exchange.

(b) Share capital

As at the Latest Practicable Date, the issued share capital of the Company comprised of 1,268,117,965 Shares. Pursuant to the Subscription Agreement, an aggregate of 220,000,000 new Shares will be issued upon Completion and an aggregate of 160,000,000 new Shares will be issued upon full exercise of the Bonus Warrants.

The exercise in full of the Repurchase Mandate, on the basis of 1,488,117,965 Shares in issue immediately upon Completion, would result in up to 148,811,796 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(c) Reasons for repurchases

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

(d) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and Articles, the Listing Rules and the Companies Ordinance.

On the basis of the current financial position of the Group and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this circular. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital position of the Group or the gearing level which in the opinion of the Directors are from time to time appropriate for the Group.

(e) Share prices

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the twelve months ended 30th June, 2002, respectively, are as follows:

	Shares	
	Highest	**Lowest**
2001		
July	0.125	0.082
August	0.127	0.099
September	0.109	0.060
October	0.099	0.066
November	0.105	0.073
December	0.098	0.078
2002		
January	0.089	0.068
February	0.083	0.052
March	0.079	0.050
April	0.101	0.040
May	0.178	0.075
June	0.140	0.101

(f) Director's dealings

None of the Directors nor to the best of their knowledge, having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

(g) General

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

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert 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. Upon Completion, the Controlling Shareholders will hold in aggregate 637,423,003 Shares, representing approximately 42.83% of the enlarged issued Shares. Exercise in full of the Repurchase Mandate will result in the repurchase of 148,811,796 Shares, and the Controlling Shareholders aggregate interest will increase to 47.6% immediately after Completion. Such increase may give rise to an obligation on the part of the Controlling Shareholders to make a mandatory offer under Rule 26 of the Takeovers Code. The Directors have no intention to exercise the general authority to repurchase Shares to such an extent as would result in such an obligation arising. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any purchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

The Company has not purchased any of its Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this circular.

1. RESPONSIBILITY STATEMENT

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

The information in this circular relating to the Subscriber has been supplied by the sole director of the Subscriber. The issue of this circular has been approved by the sole director of the Subscriber who accepts full responsibility for the accuracy of information contained in this circular relating to the Subscriber, and confirms, having made all reasonable inquiries, that to the best of her knowledge and belief, opinions expressed in this circular relating to the Subscriber have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests in the Company

(i) Directors' interests in Shares

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company or its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

1. Interests in the Company

	Number of Shares of HK$0.25 each			
Name of directors	**Personal interests**	**Corporate interests**	**Family interests**	**Other interests**
Chan Heng Fai	71,476,233	8,535,276 (1)	305,499,334 (2)	–
Chan Yoke Keow	31,437,294	214,328,440 (3)	80,011,509 (4)	59,733,600 (5)
Chan Sook Jin, Mary-ann	25,680	–	3,416,000 (6)	–
Fong Kwok Jen	3,828,000	–	–	–
Chan Tong Wan	17,612,480	–	–	–
Wong Dor Luk, Peter	280,000	–	–	–

Notes:

(1) These Shares are owned by Heng Fai China & Asia Industries Limited, in which Mr. Chan has a beneficial interest.

(2) These Shares are owned by Mrs. Chan, the spouse of Mr. Chan.

(3) These Shares are owned by BPR Holdings (BC) Inc., BPR Holdings (Far East) Limited, First Pacific International Limited and the Subscriber, in which Mrs. Chan has a beneficial interest.

(4) These Shares are owned by Mr. Chan, the spouse of Mrs. Chan.

(5) These Shares are owned by a discretionary trust, Bermuda Trust (South Pacific) Limited. Mrs. Chan is one of the discretionary objects.

(6) These Shares are owned by Mr. Wooldridge Mark Dean, the spouse of Ms. Chan Sook Jin, Mary-ann.

2. Interests in an associated corporation

	Number of shares held in Hai Xia and nature of interest			
Name of Director	**Corporate**	**Personal**	**Family**	**Other**
Chan Heng Fai	–	3,136,000	–	–
Chan Yoke Keow	–	3,136,000	–	–
Chan Sook Jin, Mary-ann	–	500,000	–	–

Save as disclosed under the paragraph headed "Directors' interests in Shares", as at the Latest Practicable Date, no Directors had or deemed to have any interests in the share capital of the Company or its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of Part I of the Schedule to the SDI Ordinance) or which are required to be entered into the register maintained by the Company under Section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(ii) Directors' rights to acquire Shares

The Company has adopted a share option scheme under which the Directors may invite any executive Director to take up options to subscribe for Shares. As at the Latest Practicable Date, the following options are outstanding:

Name of Director	No. of options outstanding	Exercise Price HK$	Exercisable period
Chan Heng Fai	1,000,000	0.4025	22.4.1996 to 21.4.2006
	6,660,000	0.4512	15.5.1997 to 14.5.2007
	14,400,000	0.3064	26.10.1997 to 25.10.2007
Chan Yoke Keow	2,071,739	0.4025	22.4.1996 to 21.4.2006
	6,660,000	0.4512	15.5.1997 to 14.5.2007
	14,400,000	0.3064	26.10.1997 to 25.10.2007
Chan Sook Jin, Mary-ann	25,000,000	0.3064	26.10.1997 to 25.10.2007

In addition, the following outstanding options to subscribe for shares in the capital of Hai Xia, granted to certain Directors under the share option scheme of Hai Xia are as follows:

Name of Director	No. of options outstanding	Exercise Price HK$	Exercisable period
Chan Sook Jin, Mary-ann	1,000,000	0.11	10.2.1998 to 9.2.2008

At no time during the Relevant Period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors and their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

(iii) Substantial Shareholders

As at the Latest Practicable Date, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance and so far as was known to the Directors, no other person (other than the Directors) were interested in 10 per cent. or more of the Company's issued share capital.

(iv) Others

As at the Latest Practicable Date,

(aa) none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, and none of Somerley, Tai Fook Capital, Deloitte Touche Tohmatsu, Sallmanns, OrangeTee, Colliers or Johnston, Ross & Cheng had any interest in Shares;

(bb) no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or Hai Xia or with any party acting in concert with any of them had any interest in Shares;

(cc) no Shares were managed on a discretionary basis by any fund managers connected with the Company or any of its subsidiaries; and

(dd) the Subscriber was interested in 101,260,000 Shares.

(b) Dealings in Shares

(i) Directors

None of the Directors had dealt for value in any Shares or the shares of the Subscriber during the Relevant Period.

(ii) Others

During the Relevant Period,

(aa) none of the subsidiaries of the Company, nor any pension funds of the Company or any of its subsidiaries, and none of Somerley, Tai Fook Capital, Deloitte Touche Tohmatsu, Sallmanns, OrangeTee, Colliers or Johnston, Ross & Cheng had dealt for value in any Shares;

(bb) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any persons acting in concert with any of them had dealt for value in any Shares;

(cc) no fund managers connected with the Company or any of its subsidiaries had dealt for value in any Shares on a discretionary basis; and

(dd) the Subscriber has not dealt for value in any Shares.

(c) Interest in the Subscriber

As at the Latest Practicable Date, the Company is not interested in, and has not dealt in, the capital of the Subscriber.

3. MARKET PRICES

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

	HK$
2001	
30th November	0.090
31st December	0.091
2002	
31st January	0.080
28th February	0.070
31st March	0.070
30th April	0.090
10th May	0.095
Latest Practicable Date	0.129

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$0.172 on 29th May, 2002 and HK$0.054 on 22nd March, 2002, respectively.

4. EXPERTS

Each of Somerley, Tai Fook Capital, Deloitte Touche Tohmatsu, Sallmanns, OrangeTee, Colliers and Johnston, Ross & Cheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter(s) and/or references to its name in the form and context in which it appears.

The following are the qualifications of the experts who have provided their advices, reports and valuation (as the case may be), which are contained in this circular:

Name	**Qualification**
Somerley	Investment adviser and exempt dealer registered under the Securities Ordinance
Tai Fook Capital	Investment adviser registered under the Securities Ordinance
Deloitte Touche Tohmatsu	Certified Public Accountants
Sallmanns	Professional surveyors
Johnston, Ross & Cheng	Professional surveyors
OrangeTee	Professional surveyors
Colliers	Professional surveyors

As at the Latest Practicable Date, none of Somerley, Tai Fook Capital, Deloitte Touche Tohmatsu, Sallmanns, OrangeTee, Colliers or Johnston, Ross & Cheng was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. MATERIAL CONTRACTS

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

(i) On 24th November, 2000, the Company entered into an agreement with Hai Xia in connection with the acquisition of three subsidiaries of the Company (the "Property Companies") by Hai Xia. Pursuant to which, the Company agreed to sell and Hai Xia agreed to acquire the entire issued share capital of the Property Companies and the shareholder's loans owing by the Property Companies to the Company in an aggregate consideration of HK$56,402,477. The consideration for the acquisition was satisfied by way of issue and allotment of 56,402,477 convertible preference shares of Hai Xia at HK$1 each. The convertible preference shares of Hai Xia can be converted into new shares at an initial conversion price of HK$0.20 each, subject to adjustments;

(ii) On 8th June, 2001, the Company entered into an agreement with eVision pursuant to which the Company agreed to acquire 1,083,533 common shares in eBanker, representing 39.9% of the issued common shares of eBanker, 1 series A preferred share of eBanker, which carries the right to 50% of the votes to elect the board of eBanker, an amount of US$660,000 of convertible debentures, which will convert up to 132,000 common shares of eBanker upon conversion, 330,000 US$3 warrants, which will convert up to 330,000 common shares of eBanker upon conversion, 307,692 US$8 warrants, which will convert up to 307,692 common shares of eBanker upon conversion, 307,692 US$9 warrants, which will convert up to 307,692 common shares of eBanker upon conversion, the entire issued shares in Global Growth for a consideration of US$1,000,000 (or approximately HK$7.8 million). The principal asset of Global Growth is its interest in a commercial property and an aggregate of 1,050,000 shares, or an approximately 4.67% interest in Global Med for a consideration of US$795,900 (or approximately HK$6.2 million). A summary of the terms of the agreement is set out in an announcement of the Company dated 8th June, 2001;

    On 26th June, 2001, the parties to this agreement entered into a supplemental agreement to extend the effective time of completion to 24th October, 2001. On 24th October, 2001, the parties to this agreement entered into a further supplemental agreement to extend the effective time of completion to 22nd January, 2002;

(iii) On 27th July, 2001, the Company, Hai Xia Finance and Hai Xia entered into an agreement whereby the Company has agreed to grant to Hai Xia Finance an option to acquire up to 380,000,000 shares in the capital of Hai Xia at a price of HK$0.16 per share within 12 months from the date of satisfaction of certain conditions. A summary of the terms of this agreement is set out in a circular of the Company dated 21st

August, 2001 issued to the Shareholders. On 2nd November, 2001, the parties to this agreement entered into a supplemental agreement to extend the time limit for the satisfaction of the conditions to 31st December, 2001;

(iv) On 14th August, 2001, a subscription agreement was entered into between Hai Xia and Optic Venture Holding Limited ("OVH") pursuant to which Hai Xia has agreed to allot and issue to OVH and OVH has agreed to subscribe for an aggregate of 30,000,000 new ordinary shares in the capital of Hai Xia at a price of HK$0.60 per shares, subject to, among other things, the Stock Exchange granting the listing of, and permission to deal in, the new shares. A summary of the terms of the agreement is set out in an announcement of Hai Xia dated 16th August, 2001;

(v) On 22nd November, 2001, an agreement was entered into between Hai Xia and Greater China Sci-Tech Holdings Limited ("Greater China") pursuant to which Hai Xia has agreed to subscribe for 600,000,000 new ordinary shares of Greater China at a price of HK$0.10 each in consideration of the issue by Hai Xia to Greater China of 100,000,000 new ordinary shares of Hai Xia at HK$0.60 each. A summary of the terms of the agreement is set out in an announcement of Hai Xia dated 26th November, 2001;

(vi) On 28th November, 2001 (and amended on 4th December, 2001), a subscription agreement was entered into between Hai Xia and First Bullet Finance Limited ("FBF") pursuant to which Hai Xia has agreed to allot and issue to FBF and FBF has agreed to subscribe for an aggregate of 36,000,000 new ordinary shares in the capital of Hai Xia at a price of HK$0.60 per share, subject to, among other things, the Stock Exchange granting the listing of, and permission to deal in, the new shares. A summary of the terms of the agreement is set out in an announcement of Hai Xia dated 4th December, 2001. The subscription agreement was cancelled;

(vii) On 6th April, 2002, a supplement agreement in respect of the grant of option by the Company to Hai Xia Finance to amend certain terms and conditions of the agreement dated 27th July, 2001 as stated in 5(iii) of Appendix V of this circular. A summary of the terms of the supplemental agreement is set out in an announcement of the Company dated 11th April, 2002;

(viii) On 29th April, 2002, an agreement was entered into between the Company and Kingston Securities Limited ("Kingston") pursuant to which the Company has appointed Kingston as placing agent for placing of 37,230,000 convertible preference shares of nominal value of HK$1.00 each in the capital of Hai Xia ("Preference Shares") (which, if after full conversion, will be equivalent to 219,000,000 ordinary shares of Hai Xia) held by the Company at a placing price of not less than HK$0.17 per ordinary share of Hai Xia converted from the Preference Shares to independent parties. The placing was completed on 11th June, 2002 and a total of HK$37,230,000 was received by the Company (before expenses);

(ix) On 29th April, 2002, a co-operative agreement was entered into between Hai Xia and Hai Xia Finance pursuant to which Hai Xia Finance will procure exclusive investment projects in the area of natural gas pipelines installation and supply of natural gas. A summary of the terms of the co-operative agreement is set out in an announcement of Hai Xia dated 30th April, 2002;

(x) On 4th May, 2002, a subsidiary of Hai Xia entered into three agreements to acquire an aggregate of 60% interest in Beijing Xiangke Jiahua Oil and Gas Technology Co., Ltd. by way of purchase of existing equity interests and injection of new capital for an aggregate consideration of approximately HK$28,691,589. A summary of the terms of the three agreements is set out in an announcement of Hai Xia dated 9th May, 2002;

(xi) On 7th May, 2002, a placing agreement was entered into between Hai Xia and Sino-Finance Asset Management Limited pursuant to which Hai Xia has agreed to allot and issue to Sino-Finance Asset Management Limited an aggregate of 33,333,333 new ordinary shares in the capital of Hai Xia at a price of HK$0.90 per share, subject to, among other things, the Stock Exchange granting the listing of, and permission to deal in the new shares. A summary of the terms of the placing agreement is set out in an announcement of Hai Xia dated 9th May, 2002;

(xii) On 13th May, 2002, HXFL entered into an agreement with Hong Kong Syndisome Co., Limited ("HKSCo") pursuant to which HKSCo and HXFL agreed to form the Samoa Company. The Samoa Company will be owned as to 55% by HXFL and 45% by HKSCo. The proposed total investment in the Samoa Company is approximately HK$120 million which will be funded as to HK$66 million by HXFL and HK$54 million by HKSCo. Of the amount to be funded by HXFL, HK$8.4 million will be contributed by Hai Xia Finance when HXFL assign 7% of its shareholding in the Samoa Company to Hai Xia Finance pursuant to an agreement as stated in 5(xiii) of Appendix V of this circular. A summary of the terms of this agreement is set out in an announcement of Hai Xia dated 16th May, 2002;

(xiii) On 16th May, 2002, an agreement was entered into between HXFL and Hai Xia Finance pursuant to which HXFL agrees to assign 7% of its shareholding in the Samoa Company to Hai Xia Finance upon formation of Samoa Company and Hai Xia Finance agreed to invest a total of HK$8.4 million to Samoa Company. A summary of the terms of the agreement is set out in an announcement of Hai Xia dated 16th May, 2002;

(xiv) The Compromise Agreement. On 3rd June, 2002, the parties to the Compromise Agreement entered into a supplemental agreement and agreed to use best efforts towards completion of the settlement agreement on or before 3rd July, 2002;

(xv) The Subscription Agreement;

(xvi) On 8th June, 2002, Hai Xia entered into an agreement with Hai Xia Finance pursuant to which Hai Xia and Hai Xia Finance agreed to form a BVI company (the "BVI Company"). The BVI Company will be owned as to 49% by Hai Xia and 51% by Hai Xia Finance. The proposed issued share capital of the BVI Company is HK$10 million which will be funded by Hai Xia and Hai Xia Finance as to HK$4.9 million and HK$5.1 million respectively. A summary of the terms of this agreement is set out in an announcement of Hai Xia dated 10th June, 2002;

(xvii) On 13th June, 2002, China Gas Development Group Limited, a company which is indirectly owned as to 49% by Hai Xia and 51% by Hai Xia Finance ("Samoa Company II"), entered into:

(a) An agreement with the People's Government of Suizhou City ("PGSC") pursuant to which Samoa Company II and PGSC agreed to establish a Sino-foreign equity joint venture company in the PRC ("Suizhou JV") to principally engaged in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Suizhou, Hubei Province, the PRC. It is expected that the Suizhou JV will have a registered capital of approximately RMB50 million (approximately HK$47 million) to be contributed and owned as to 85% by Samoa Company II and 15% by PGSC. The total investment of the Suizhou JV is estimated to be approximately RMB150 million (approximately HK$142 million). It is expected that the Suizhou JV shall have a term of 50 years.

(b) An agreement with Yichang City Natural Gas Company Limited ("YCNG") pursuant to which Samoa Company agreed to establish a Sino-foreign equity joint venture company in the PRC ("Yichang JV") to principally engage in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Yichang, Hubei Province, the PRC. It is expected that the Yichang JV will have a registered capital of approximately RMB54 million (approximately HK$51 million) to be contributed and owned as to 90% by Samoa Company II and 10% by YCNG. The total investment of the Yichang JV is estimated to be approximately RMB180 million (approximately HK$170 million). It is expected that the Yichang JV shall have a term of 28 years.

(c) An agreement with Development Plan Commission of Shiyan City ("DPC") pursuant to which Samoa Company II and DPC agreed to establish a Sino-foreign equity joint venture company in the PRC ("Shiyan JV") to invest in the natural gas projects in Shiyan, Hubei Province, the PRC. It is agreed that Shiyan JV will be owned as to not less than 50% by Samoa Company II and the remaining balance by DPC. The total investment of the Shiyan JV is to be determined in accordance with a project feasibility report to be completed.

A summary of the terms of the above agreements is set out in the announcement of Hai Xia dated 14th June, 2002.

(xviii) On 28th June, 2002, Global Med International Holdings Limited (a company wholly-owned by eBanker which is owned as to 40.26% by the Group) entered into a conditional agreement to dispose of an equivalent of 4% of the issued share capital of Global Med International Limited to an independent third party for a consideration of HK$18 million. Global Med International Limited is a wholly-owned subsidiary of Global Med International Holdings Limited and Global Med International Limited will, prior to completion of such agreement, hold the 45.9% interest in Global Med.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) have been entered into by any member of the Group within the two years preceding the date of this circular.

6. LITIGATION

(i) Under the Compromise Agreement, the parties agreed to settle a net amount of HK$23,100,000 due by the Group to MBf Asia in respect of the Group's purchase from MBf Asia of the Credit Card Business. The parties to the Compromise Agreement have agreed that, within seven days of the settlement date, they shall cancel all litigation. In particular High Court Action HCCL 93/2000 in relation to the dispute between the Group and MBf Asia arising from the acquisition of the Credit Card Business by the Group, will be discontinued with each party bearing its own costs.

(ii) Two former staff issued writs against Hai Xia claiming for wrongful dismissal and compensation of approximately HK$1,862,000 plus interest and related costs.

(iii) Actions were brought by Pricerite Stores Limited and Pricerite Group Limited (together referred to as "Pricerite") respectively against OCCL in respect of the alleged breach of agreement for damages which are not quantified. In the opinion of the Directors, it is not practicable at this stage to determine with certainty the outcome of the litigation. Further details of the litigation is included in section headed "The Compromise Agreement" in the Letter from the Board in this circular.

Save as aforesaid, neither the Company nor any of its subsidiaries is engaged in litigation or arbitration of material importance and so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against the Company or any of its subsidiaries.

7. SERVICE CONTRACTS

Save as set out below, (i) none of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not terminable by the Group within one year without payment of compensation (other than statutory compensation); (ii) none of the Directors has any service contracts with the Company or any of its subsidiaries or associated companies in force for Directors which have more than 12 months to run; and (iii) there are no contracts which have been entered into or amended with 6 months before the date of the Announcement:

(a) On 9th November, 1998, a service contract (the "Service Contract") was entered into between the Company and Mr. Chan, for a term of five years expiring on 31st January, 2002. The terms of the Service Contract are deemed to have taken effect on 1st February, 1997. On 25th November, 2000, a supplementary agreement was entered into between the Company and Mr. Chan for the extension of the Service Contract for a period of three years expiring on 31st January, 2005.

Commencing from 1st February, 1998 and up to 31st January, 2005, the Service Contract provides for the payment of a salary of the greater of (i) an annual salary equal to 5.9% of the net asset value of the Company as shown in its consolidated audited accounts at each financial year end of the Company, or (ii) 101% of the basic salary for the period from 1st February, 1997 to 31st January, 1998. In addition, Mr. Chan is also entitled to receive an accommodation allowance of HK$30,000 per month.

(b) A service contract (the "Service Contract with Mrs. Chan") has been entered into between the Company and Mrs. Chan for a term of five years commencing 1st February, 1997 and expiring on 1st February, 2002.

A supplementary agreement to the Service Contract with Mrs. Chan has been entered into between the Company and Mrs. Chan in substitution for various terms of the Service Contract with Mrs. Chan. The supplementary agreement provides for the payment of a salary of the greater of (i) an annual salary equal to 1% of the net asset value of the Company as shown in its consolidated audited accounts at each financial year end of the Company, or (ii) 110% of the basic salary as mentioned in the Service Contract with Mrs. Chan with effect from 1st February, 1998.

On 22nd April, 2002, a new service contract was entered into between the Company and Mrs. Chan which took effect from 1st February, 2002 for a period of 5 years. This new service contract amended the basis of the calculation of the salary of Mrs. Chan. For a period of 12 calendar months beginning 1st May, 2002, only 75% of the greater of (i) an annual salary equal to 1% of the net asset value of the Company as shown in its consolidated audited accounts at each financial year end of the Company, or (ii) 110% of the basic salary as mentioned in the new service contract with Mrs. Chan is payable to Mrs. Chan. Thereafter, for the period beginning 1st May, 2003 to the expiry of the new service contract, the full amount of the greater of (i) or (ii) above will be payable to Mrs. Chan. In addition, Mrs. Chan is also entitled to receive an accommodation allowance of HK$30,000 per month for the 5 years beginning 1st February, 2002.

8. MISCELLANEOUS

(a) Save for the Subscription Agreement, there is no agreement or arrangement entered into by any member of the Group subsisting at the date thereof in which any Director is materially interested.

(b) None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31st March, 2001, the date to which the latest published audited financial statements of the Group were made up.

(c) No benefits will be given to any Director as compensation for loss of office or otherwise in connection with the Subscription Agreement.

(d) No agreement, arrangement or understanding exists whereby any Shares to be acquired in pursuance of the Subscription Agreement will be transferred to any other persons. The Subscriber presently does not intend to transfer the Shares to be acquired pursuant to the Subscription Agreement to any other persons.

(e) Save for the Subscription Agreement, there is no agreement or arrangement between the Subscriber or any person acting in concert with it and any Directors or any other person which is conditional on or dependent upon the outcome of the Subscription Agreement or otherwise connected therewith.

(f) The registered office of the Company is at 2601, 26th Floor, Island Place Tower, 510 King's Road, North Point, Hong Kong.

(g) The registered office of the Subscriber is Tropic Isle Building, P.O. Box 438, Road Town, Tortola, BVI.

(h) The names and addresses of the principal parties acting in concert with the Subscriber are as follows:

Name	Address
Mr. Chan	Room 2601, Island Place Tower, 510 King's Road, Hong Kong
Mrs. Chan	Room 2601, Island Place Tower, 510 King's Road, Hong Kong
Chan Sook Jin, Mary-ann	Room 2608, Island Place Tower, 510 King's Road, Hong Kong
Chan Tong Wan	Room 2610, Island Place Tower, 510 King's Road, Hong Kong
Fong Kwok Jen	7 Temasek Boulevard #43-03 Suntec Tower One, Singapore 038987
Chan Tung Moe	Room 2610, Island Place Tower, 510 King's Road, Hong Kong
Wong Lai Wan	Room 2610, Island Place Tower, 510 King's Road, Hong Kong

(i) Somerley is the financial adviser to the Company, the registered office of which is situated at Suite 3108, One Exchange Square, 8 Connaught Place, Central, Hong Kong.

(j) The secretary of the Company is Ms. Chan Suk King, Zoe *ACCA, AHKSA, ACIS, ACS*.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the offices of Herbert Smith at 23rd Floor, Gloucester Tower, The Landmark, Central, Hong Kong from the date of this circular up to and including 30th July, 2002 and at the EGM:

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

(b) the agreements mentioned under the paragraph headed "Material Contracts" in this Appendix;

(c) the annual reports of the Company for the two years ended 31st March, 2001;

(d) the interim report of the Company for the six months ended 30th September, 2001;

(e) the comfort letters from Deloitte Touche Tohmatsu and Somerley as set out in Appendix I to this circular;

(f) the letter of advice received from Tai Fook Capital, the text of which is set out on pages 21 to 41 of this circular;

(g) the letters and valuation certificates prepared by the Valuers in relation to the Company's property interests which are set out in Appendix II to this circular; and

(h) the written consents referred to in the paragraph headed "Experts" in this Appendix.

HENG FUNG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Heng Fung Holdings Limited will be held at Park Lane IV, 27th Floor, The Park Lane, 310 Gloucester Road, Hong Kong on Wednesday, 31st July, 2002 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution numbered 1 as a special resolution and resolutions numbered 2 to 6 as ordinary resolutions:

SPECIAL RESOLUTION NO.1

"**THAT** the Articles of Association of the Company be amended by the deletion of the existing Article 121 and the replacement thereof by a new Article 121 as follows:

121 The Company in General Meeting may, upon the recommendation of the Directors, resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution and not required for the payment or provision of the fixed dividend on any Shares (if any) entitled to fixed preferential dividends, and accordingly that such sum be set free for distribution amongst the Members who would have been entitled thereto if distributed by way of dividend and in the same proportions, and/or to any one or more of the Members on such other basis of entitlement (whether in the same proportions or not) as determined by the Directors and approved by the Company in General Meeting, in each case on condition that the same be not paid in cash but be applied either in or towards paying up any amounts for the time being unpaid on any Shares held by such Member or Members respectively or paying up in full unissued Shares, warrants or debentures of the Company to be allotted and distributed credited as fully paid up to and amongst such Members in the proportion aforesaid and/or (as the case may be) to any one or more of the Members on the basis of entitlement and other proportions as aforesaid, and the Directors shall give effect to such resolutions;

Provided that a Share Premium Account and a Capital Redemption Reserve Fund may, for the purposes of this Article, only be applied in the paying up of unissued Shares to be issued to Members of the Company as fully paid bonus Shares."

ORDINARY RESOLUTION NO.2

"**THAT** conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited granting listings of, and permission to deal in, the Subscription Shares (as defined below), the Bonus Shares (as defined below), the New Shares (as defined below) and the Bonus Warrant Shares (as defined below) and subject to the passing of Resolutions numbered 1 and 3 set out in the notice of extraordinary general meeting of which this Resolution forms part:

(i) the subscription agreement ("**Agreement**") dated 27th May, 2002 between the Company and Prime Star Group Co., Ltd. (the "**Subscriber**") in relation to the subscription of 80,000,000 new shares ("**Subscription Shares**") of HK$0.25 each ("**Shares**") in the capital of the Company at a price of HK$0.25 each (a draft of which marked "A" has been produced to the meeting and for the purpose of identification signed by the chairman of the meeting) be and is hereby approved;

(ii) a sum of up to a maximum of HK$35,000,000 standing to the credit of the share premium account of the Company be capitalised and the directors of the Company ("**Directors**") be and they are hereby authorised and directed to apply such sum in paying up in full at par up to a maximum of 140,000,000 unissued shares of HK$0.25 each in the share capital of the Company ("**Bonus Shares**") and the Directors be and are hereby authorised to allot and issue such Bonus Shares credited as fully paid, by way of bonus to the Subscriber upon allotment of the Subscription Shares in the proportion of 175 Bonus Shares for every 100 Subscription Shares subscribed by the Subscriber pursuant to the Agreement;

(iii) the Directors be and are hereby authorised (a) to create and issue 80,000,000 warrants (the "**Warrants**"), which shall be in registered form and which shall be exercisable at any time during a period of two years commencing on the date of the issue of the Warrants conferring rights to holders thereof to subscribe in cash for a total of 80,000,000 Shares (or such number and in such denomination as may have resulted from any consolidation, subdivision, capitalisation, capital distribution or offer to holders of Shares of new Shares for subscription) ("**New Shares**") at an initial subscription price of HK$0.25 per New Share (subject to adjustment) on the basis of one New Share for one Warrant, upon the terms and conditions set out in the Agreement and Warrant certificate; (b) to issue the Warrants by way of bonus to the Subscriber in the proportion of one Warrant for each Subscription Share subscribed by the Subscriber pursuant to the Agreement so that the New Shares to be issued pursuant to the exercise of the subscription rights attaching to the Warrants will rank pari passu in all respects with the fully paid Shares in issue on the relevant subscription date; and (c) to allot and issue New Shares arising from the exercise of the subscription rights attaching to the Warrants or any of them;

(iv) subject to the exercise of the Warrants and the subscription for New Shares pursuant thereto, a sum of up to a maximum of HK$20,000,000 standing to the credit of the share premium account of the Company be capitalised and the Directors be and they are hereby authorised and directed to apply such sum in paying up in full at par up to a maximum of 80,000,000 unissued shares of HK$0.25 (or such number and in such denomination as may have resulted from any consolidation, subdivision, capitalisation, capital distribution or offer to holders of Shares of new Shares for subscription) each in the share capital of the Company ("**Warrant Bonus Shares**") upon allotment of the New Shares as a result of the exercise of the subscription rights attached to the Warrants and the Directors be and are hereby authorised to allot and issue such Warrant Bonus Shares credited as fully paid, by way of bonus to the allottee of the New Shares upon allotment of the New Shares in the proportion of one Warrant Bonus Share for each New Share allotted pursuant to the Agreement;

(v) the Directors be and are hereby authorised to do all acts and things which in their opinion are necessary or expedient to give effect to any or all of the transactions contemplated in the Agreement."

ORDINARY RESOLUTION NO.3

"**THAT** subject to the passing of Resolutions numbered 1 and 2 set out in the notice of extraordinary general meeting of which this Resolution forms part (the "**Notice**") the waiver in respect of any obligation on the part of the Subscriber (as defined in Resolution numbered 2 set out in the Notice), Mr. Chan Heng Fai, Mrs. Chan Yoke Keow and persons acting in concert (having the meaning ascribed to that term under the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**")) with them in relation to the holding of Shares to make a mandatory offer for all the issued Shares not already owned by them which would (but for the waiver) otherwise arise as a result of the allotment and issue of the Subscription Shares, the Bonus Shares, the New Shares and the Warrant Bonus Shares under Rule 26 of the Takeovers Code be and is hereby approved."

ORDINARY RESOLUTION NO. 4

"**THAT**:

(i) subject to sub-paragraph (iii) of this resolution, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and 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, be and is hereby generally and unconditionally approved;

(ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company 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 Period;

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a rights issue (as defined in paragraph (iv) below); (b) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (c) an issue of shares of the Company as scrip dividends pursuant to the acticles of association of the Company from time to time; or (d) an issue of shares of the Company under any option scheme or similar arrangement for the grant or issue to employees of the Company and/or any of its subsidiaries of shares of the Company, or rights to acquire shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the subscription agreement dated 27th May, 2002 entered into between the Company and Prime Star Group Co., Ltd.;

(iv) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company: or

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

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

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

ORDINARY RESOLUTION NO. 5

"**THAT**:

(i) subject to paragraph (ii) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (i) above shall not exceed 10 per cent. of the aggregate nominal amount of share capital of the Company in issue immediately following the completion of the subscription agreement dated 27th May, 2002 entered into between the Company and Prime Star Group Co., Ltd.;

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company; or

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

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

ORDINARY RESOLUTION NO. 6

"**THAT** conditional upon Resolution No. 5 set out in the notice convening the extraordinary general meeting of the Company to be held on 31st July, 2002 (the "Notice") being passed, the aggregate nominal amount of shares in the capital of the Company which are purchased by the Company under the authority granted to the directors of the Company by such resolution shall be added to the aggregate nominal amount of shares in the capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution No. 4 set out the Notice."

By Order of the Board
Chan Heng Fai
Chairman and Managing Director

Hong Kong, dated 8th July, 2002

Registered office:
2601, 26th Floor
Island Place Tower
510 Kong's Road
North Point
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. The instrument appointing a proxy and 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 registered office of the Company in Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.