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GREAT CHINA HOLDINGS LIMITED
大中華集團有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

CONNECTED TRANSACTIONS

**Independent financial adviser to the Independent Board Committee
of Great China Holdings Limited**



AMS Corporate Finance Limited

A letter from the Independent Board Committee is set out on page 13 of this circular.

A letter from AMS Corporate Finance Limited containing its opinion to the Independent Board Committee is set out on pages 14 to 21 of this circular.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	
1. Introduction	4
2. Background	5
3. The Grant and Exercise of the Poppins Option	7
4. The Share Acquisition	8
5. Information on the Group and Poppins	9
6. Reasons for the Transactions	10
7. Connected Transactions	11
8. Recommendation	11
9. Further Information	12
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	13
LETTER FROM AMS CORPORATE FINANCE LIMITED	14
APPENDIX I – VALUATION REPORT	22
APPENDIX II – GENERAL INFORMATION	28

DEFINITIONS

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

“AMS”	AMS Corporate Finance Limited, the independent financial adviser to the Independent Board Committee in relation to the Transactions and a corporation deemed licensed to carry on businesses in types 4, 6 and 9 regulated activities (advising on securities and corporate finance and asset management, respectively) under the SFO
“Board”	the board of Directors
“CJV Agreement”	the cooperative joint venture agreement dated 22 June 1997 between Poppins and the PRC Parties in relation to the development of Merry Tower
“Company”	Great China Holdings Limited, a company incorporated in Hong Kong the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“First Supplemental Agreement”	the supplemental agreement dated 10 November 2000 between Pakka and Mr Chiang supplementing the Joint Venture Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board comprising Mr Lawrence Yu Kam Kee and Mr David Yu Ho To who are the independent non-executive Directors
“Independent Shareholders”	Shareholders who are not interested in the Transactions
“Joint Venture Agreement”	the joint venture agreement dated 1 August 1997 between Pakka and Mr Chiang for the establishment of Poppins which was supplemented by two supplemental agreements dated 10 November 2000 and 5 September 2001 respectively

DEFINITIONS

“Latest Practicable Date”	14 January 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules “	the rules Governing the Listing of Securities on the Stock Exchange
“Mr Chiang”	Mr Chiang Sung Ning, a director of Poppins and a substantial shareholder of Poppins prior to the completion of the Share Acquisition
“Pakka”	Pakka Properties Limited, a company incorporated in the British Virgin Islands, a wholly owned subsidiary of the Company
“Participation Loan”	the shareholder’s loan agreed to be extended to Poppins by Mr Chiang pursuant to the First Supplemental Agreement
“Poppins”	Poppins Properties Limited, a company incorporated in the British Virgin Islands which became an indirect wholly owned subsidiary of the Company on 29 May 2003 following completion of the Share Acquisition
“Poppins Option”	an option right to convert the balance of the Participation Loan and interest thereon as at 4 September 2001 into new shares in Poppins granted to Mr Chiang under the Joint Venture Agreement
“PRC”	the People’s Republic of China
“PRC Joint Venture”	the cooperative joint venture to be set up pursuant to the CJV Agreement to develop Merry Tower
“PRC Parties”	the PRC parties entering into the CJV Agreement with the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	the 8,013 shares in Poppins, being the entire interest of Mr Chiang’s in Poppins sold to Pakka on 29 May 2003
“Second Supplemental Agreement”	the supplemental agreement dated 5 September 2001 between Pakka and Mr Chiang supplementing the Joint Venture Agreement and the First Supplemental Agreement

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Acquisition”	the acquisition of the Sale Shares from Mr Chiang pursuant to the first right of refusal granted to Pakka under the Joint Venture Agreement
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the grant of the Poppins Option by Poppins to Mr Chiang and the Share Acquisition
“US\$”	United States dollars

In this circular, the exchange rates of HK\$1.00 = RMB1.0594 and HK\$7.8 = US\$1 have been used, where applicable, for purposes of illustration only and does not constitute any representation that any amounts have been, could have been or may be exchanged.



GREAT CHINA HOLDINGS LIMITED

大中華集團有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

Directors

Executive Directors

Rustom Ho Ming Yu (*Chairman*)

John Ho Ming Tak (*Managing Director*)

Registered Office

6th floor

9 Des Voeux Road West

Hong Kong

Non-Executive Director

Chiu Chui Yi

Independent Non-Executive Directors

Lawrence Yu Kam Kee

David Yu Hon To

20 January 2004

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS

1. INTRODUCTION

The Board announced on 10 December 2003 that on 1 August 1997, the Company through its wholly owned subsidiary, Pakka entered into the Joint Venture Agreement with Mr Chiang for the establishment of Poppins which would in turn form a cooperative joint venture with two PRC parties to invest in a property project in Shanghai known as Merry Tower. Under the Joint Venture Agreement, Mr Chiang granted a first right of refusal to Pakka pursuant to which Mr Chiang undertook to sell his interest in Poppins to Pakka at a fair price before offering to sell the same in whole or in part to any third party. On 5 September 2001 Pakka also agreed to the grant of the Poppins Option by Poppins to Mr Chiang to convert the balance of the Participation Loan (together with interest) totalling HK\$6,915,010.27 into new shares in Poppins.

On 1 May 2003, Mr Chiang exercised the Poppins Option. As a result of this, Mr Chiang's interest in Poppins increased from 4.82% to 14.41% of the share capital in Poppins as enlarged by the issue of the conversion shares. And Pakka's interest in Poppins was diluted from 95.18% to 85.59% after the exercise of the Poppins Option by Mr Chiang.

LETTER FROM THE BOARD

On 5 May 2003, Mr Chiang offered to sell his entire 14.41% interest in Poppins to Pakka pursuant to the first right of refusal under the Joint Venture Agreement. Pakka accepted the offer on 29 May 2003 and the Share Acquisition was completed on the same day.

Mr Chiang was a connected person of the Company by virtue of the fact that he was a director of Poppins, a subsidiary of the Company, at the time of the Transactions and a substantial shareholder of Poppins (after exercise of the Poppins Option).

The purpose of this circular is (i) to provide you with the details of the Transactions; and (ii) to set out the advice of the Independent Board Committee to the Independent Shareholders and the opinion of AMS, the independent financial adviser to the Independent Board Committee, with respect to the terms of the Transactions.

2. BACKGROUND

On 1 August 1997, the Company through its wholly owned subsidiary, Pakka entered into the Joint Venture Agreement with Mr Chiang for the establishment of Poppins which would in turn form a cooperative joint venture with two PRC parties to invest in a property project in Shanghai known as Merry Tower. The PRC Parties and their beneficial owners were not connected persons of the Company under the Listing Rules. Merry Tower and the adjoining Merry Hotel are situated in the Jingan District in Shanghai, the PRC. Underneath Merry Tower and Merry Hotel are a shopping mall (Level 1-5) and basements (Level 1-3) for car parking spaces. The PRC Parties held a 100% interest in the Merry Tower apartments (Level 6-28) and the basements and certain portions of the shopping mall. Merry Tower was under development when Poppins entered into the CJV Agreement. Initially, Pakka and Mr Chiang agreed to subscribe respectively 30,000 and 20,000 shares in Poppins at US\$1 per share.

Mr Chiang introduced the Merry Tower investment to the Group. In consideration of this, the Group and Mr Chiang entered into the Joint Venture Agreement which provided, amongst other things, that

- (i) Pakka would pay the US\$20,000 (approximately HK\$156,000) subscription monies for the shares in Poppins for Mr Chiang;
- (ii) when the capital contribution by Pakka to the PRC Joint Venture (“**Capital Undertaking**”) was not more than RMB81,000,000 (approximately HK\$76,458,000), Mr Chiang was not required to provide any shareholders’ loan to Poppins;
- (iii) when the Capital Undertaking exceeded RMB81,000,000 (approximately HK\$76,458,000) but was not more than RMB135,000,000 (approximately HK\$127,431,000), Mr Chiang was required to provide a shareholder’s loan to Poppins in an amount equal to the excess over RMB81,000,000 (approximately HK\$76,458,000) at a monthly interest rate of 1.5%;
- (iv) when the Capital Undertaking exceeded RMB135,000,000 (approximately HK\$127,431,000), Pakka and Mr Chiang would provide shareholders’ loans to Poppins in proportion to their respective shareholdings in Poppins; and

LETTER FROM THE BOARD

- (v) Mr Chiang granted a first right of refusal to Pakka pursuant to which Mr Chiang undertook to sell his interest in Poppins to Pakka at a fair price before offering to sell the same in whole or in part to any third party.

Pursuant to the cooperative joint venture agreement dated 22 June 1997 between Poppins and the PRC Parties, the PRC Parties agreed to inject their entire interests in Merry Tower which were under construction into the PRC Joint Venture as capital contribution, and Poppins agreed to provide funding for the development of Merry Tower. In accordance with the CJV Agreement, Poppins made certain payments to the PRC Parties and purchased equipment on its behalf for the development of Merry Tower. As of end of October 1998 Poppins had injected approximately HK\$65,000,000 into the project.

However, the PRC Parties did not fulfil their obligations under the CJV Agreement, and the PRC Joint Venture was never established. Poppins then instituted arbitration proceedings against the PRC Parties in 1998 at the China International Economic and Trade Arbitration Commission (“CIETAC”) which ruled in favour of Poppins. Poppins was awarded HK\$65,000,000 and interest thereon for the payments made to and on behalf of the PRC Parties. Subsequently, pursuant to a foreclosure order of the Shanghai People’s High Court, part of the PRC Parties’ interests in Merry Tower were put on auction. With the consent of the court, in October 2000 Poppins acquired, through a PRC wholly owned subsidiary, the following interests in Merry Tower at the auction and used the arbitration award by CIETAC to satisfy the auction monies:–

Basement	:	Level 1-3 – Whole floor
Shopping mall	:	Level 1 – Western portion
	:	Level 2 – Whole floor
	:	Level 3 – Western portion
Apartment	:	Level 6-15 – Whole floor

Up to October 1998, Pakka and Mr Chiang had provided shareholders’ loans to Poppins amounting to HK\$62,982,698 and HK\$3,044,000 respectively. In view of the aforesaid developments concerning the investment in Merry Tower and the amount of contributions in Poppins, Pakka and Mr Chiang entered into the First Supplemental Agreement on 10 November 2000 and agreed to adjust their proportionate interests in Poppins from 60% and 40% to 95.18% and 4.82% based on the sum of their respective capital contributions and shareholders’ loans provided to Poppins as of October 1998. The shareholders loans that had been provided by Pakka and Mr Chiang were subsequently capitalized into the reserves of Poppins on 31 March 2003.

In addition to the foregoing contributions, Mr Chiang agreed to provide the Participation Loan upon Pakka’s request (subject to a cap of HK\$12,000,000) to meet Poppins’ working capital requirements. Pursuant to the First Supplemental Agreement, the Participation Loan bore interest at a rate of 10% per annum and entitled Mr Chiang to share 40% of the operating profit of Poppins subject to the rate of return of the sum of the interest receivable and the share of the operating profit of Poppins under the

LETTER FROM THE BOARD

Participation Loan not exceeding 18% per annum. Since Poppins had been loss-making, Mr Chiang had never received any share of profit from Poppins pursuant to the terms of the Participation Loan. As at 4 September 2001 the amount of the Participation Loan and interest thereon amounted to HK\$6,408,500 and HK\$506,510.27 respectively, totalling HK\$6,915,010.27.

3. THE GRANT AND EXERCISE OF THE POPPINS OPTION

Pakka and Mr Chiang entered into the Second Supplemental Agreement on 5 September 2001 pursuant to which the Poppins Option was granted to Mr Chiang.

Details of the Poppins Option

Date of grant	:	5 September 2001
Grantor	:	Poppins
Grantee	:	Mr Chiang
Rights under the Poppins Option	:	to convert in full at any time during the exercise period (as set out below) the balance of the Participation Loan as at 4 September 2001 (together with interest thereon) which amounted to HK\$6,915,010.27 into shares in Poppins at an exercise price of HK\$1,234.13 per share which was based on the proforma net asset value of Poppins as at 5 September 2001 of HK\$61,706,324.19 (assuming capitalization of the shareholders' loans by Pakka and Mr Chiang to Poppins)
Exercise period	:	any time during the three years from the date of grant (i.e. from 5 September 2001 to 4 September 2004)
Consideration for the grant	:	Mr Chiang agreeing to waive the interest of 10% per annum on the Participation Loan with effect from 5 September 2001, being the date of grant of the Poppins Option
Other terms	:	the right of Mr Chiang to share 40% of Poppins' operating profit under the Participation Loan will lapse immediately upon exercise of the Poppins Option

Mr Chiang exercised the Poppins Option on 1 May 2003 and 5,603 new shares in Poppins were allotted and issued to Mr Chiang. Following the issue, Mr Chiang was interested in 8,013 shares in Poppins, representing 14.41% of the total issued share capital of Poppins as enlarged by the issue of the conversion shares under the Poppins Option.

LETTER FROM THE BOARD

4. THE SHARE ACQUISITION

Date of the Share Acquisition	:	29 May 2003
Buyer	:	Pakka
Vendor	:	Mr Chiang
Assets acquired	:	8,013 shares in Poppins, being the entire interest of Mr Chiang in Poppins and representing approximately 14.41% of Poppins' total issued share capital
Consideration	:	RMB17,900,000 (approximately HK\$16,896,000) payable by instalments as follows:

	<i>RMB</i>
6 June 2003	6,000,000
30 June 2003	5,000,000
31 July 2003	1,000,000
31 August 2003	1,000,000
30 September 2003	1,000,000
31 October 2003	1,000,000
30 November 2003	1,000,000
31 December 2003	1,900,000
	<hr/>
	17,900,000
	<hr/> <hr/>

All the eight instalment payments have been made to Mr Chiang.

Pursuant to the first right of refusal granted by Mr Chiang to Pakka under the Joint Venture Agreement, Mr Chiang undertook to offer to sell his interest in Poppins to Pakka at a fair price before offering to sell the same to any third party. Pursuant to the Joint Venture Agreement, the fair price was equal to the proportionate share of the adjusted net assets value of Poppins in respect of the shares to be disposed of as of the last accounting date or a date to be agreed by the parties after revaluation of the Poppins' interest in the Merry Tower project by a professional valuer.

LETTER FROM THE BOARD

On 5 May 2003, Mr Chiang served notice to Pakka offering to sell the Sale Shares to Pakka pursuant to the said first right of refusal. After arm's length negotiation and pursuant to the Joint Venture Agreement, the consideration for Mr Chiang's entire interest in Poppins was determined at RMB17,900,000 (approximately HK\$16,896,000) (representing approximately HK\$2,109 per share) and was equal to 14.41% of the adjusted net asset value of Poppins of HK\$117,255,923 (representing approximately HK\$2,109 per share) and a breakdown of which is set out as follows:

	<i>HK\$</i>
Unaudited asset value of Poppins as at 30 April 2003	68,486,880
Revaluation surplus on property as at 21 May 2003	64,474,763
Less: tax effect	<u>(15,705,720)</u>
Adjusted net asset value of Poppins	<u><u>117,255,923</u></u>
14.41% thereon, approximately	<u><u>16,896,000</u></u>

Since its interests in Merry Tower are held by the Group for resale, they are stated in the books of the Group at the lower of cost and net realizable value in accordance with the Group's accounting policies. Accordingly, the revaluation surplus has not been recorded in the books of Poppins. However, when Pakka acquired the remaining 14.41% interest in Poppins from Mr Chiang, a goodwill arose upon consolidation, and an equivalent amount was treated and taken up in the Group's accounts as an increase in the cost of properties held for resale.

Pakka accepted the offer by Mr Chiang on 29 May 2003 and the Share Acquisition was completed on the same day. Upon completion of the Share Acquisition, Poppins became an indirect wholly owned subsidiary of the Company.

5. INFORMATION ON THE GROUP AND POPPINS

The Group is principally engaged in the general trading, property investments and provision of real estate and agency services. Poppins was established in August 1997 to engage in property investments in the PRC. Its principal assets are interests in the apartment, retail and car parking portions of Merry Tower. For each of the two years ended 31 December 2001 and 2002, the unaudited losses after taxation of Poppins were HK\$526,707 and HK\$227,030 respectively. As at 31 December 2001 and 31 December 2002, the unaudited negative net asset value of Poppins before capitalization of the shareholders loans from Pakka (HK\$62,982,698) and Mr Chiang (HK\$3,044,000) were HK\$3,045,671 and HK\$3,272,701 respectively.

6. REASONS FOR THE TRANSACTIONS

Mr Chiang provided the Participation Loan to Poppins to finance its working capital requirements. The Participation Loan bore interest at a rate of 10% per annum before the grant of the Poppins Option. The terms of the Participation Loan were determined after arm's length negotiation. At the time of granting the Poppins Option on 5 September 2001, the Directors considered the Company might benefit from the grant in the following ways:

- (1) Poppins would enjoy immediate interest savings as a result of Mr Chiang's agreeing to waive the interest on the Participation Loan with effect from the date of grant of the Poppins Option; and
- (2) the Participation Loan would be capitalized and hence the capital base of Poppins would be enlarged if Mr Chiang opted to exercise the Poppins Option.

The exercise price for the Poppins Option was determined after arm's length negotiation between the parties by reference to the net asset value of Poppins and the shareholders' loans by Pakka and Mr Chiang to be capitalized as at the date of grant of the Poppins Option. The Directors subsequently considered the granting of the Poppins Option and were of the view that the transaction was in the interest of the Company and the Shareholders as a whole and the terms for the Poppins Option were fair and reasonable.

Investments in PRC properties have been one of the Group's core businesses. At the time of considering the offer of the Sale Shares by Mr Chiang, the Group considered the property market in Shanghai promising in view of the sustained growth in property prices in the city. The Group also noted that the shopping mall in Merry Tower and Merry Hotel were pending for renovation in order to upgrade the facilities and standards compatible to an international 4-star hotel standard. The Group was of the view that such renovation and upgrade would enhance the market value of Merry Tower as a whole. In addition, Poppins entered into negotiations with potential tenants comprising mainly substantial tenants, which could ensure steady rental income. The consideration for the Share Acquisition was based on the adjusted net asset value of Poppins after taking into account the revaluation surplus of Poppins' properties and tax effects. The revaluation surplus was arrived at by reference to the valuation report dated 21 May 2003 (Note: due to a typographical error, the date of the valuation report was mistakenly stated as 21 May 2002 in the Company's announcement dated 10 December 2003) by FPD Savills, an independent firm of professional valuers. In view of the foregoing, the Group therefore considered that the Share Acquisition presented a good investment opportunity to the Group.

The consideration for the Share Acquisition was determined after arm's length negotiation between the parties and was based on the adjusted net asset value of Poppins. The Directors considered that the terms for the Share Acquisition were fair and reasonable and the Share Acquisition was in the interest of the Company and the Shareholders as a whole.

7. CONNECTED TRANSACTIONS

Mr Chiang had been a director of Poppins until he disposed of his entire 14.41% interest in Poppins. And Mr Chiang also became a substantial shareholder of Poppins after he exercised the Poppins Option on 1 May 2003.

The Transactions constituted connected transactions of the Company under the Listing Rules. Since the grant of the Poppins Option is not subject to any de minimis exemption and the consideration for the Share Acquisition represented more than 3% of the consolidated net tangible assets of the Company as at 31 December 2002, the Transactions should have been conditional on the approval by the Independent Shareholders in general meetings under Rule 14.26 of the Listing Rules. Due to inadvertent oversight, the Directors were unaware that the Transactions constituted connected transactions under the Listing Rules, and therefore did not disclose the Transactions by way of press announcement and make them conditional on the approval by the Independent Shareholders before they were entered into. The possible Listing Rules implications for the Transactions were brought to the attention of the Directors by the Company's auditors during their review of the Company's interim financial results in 2003. The Company then immediately sought advice from its legal advisers and reported the Transactions to the Stock Exchange. In order to prevent recurrence of similar mistakes in the future, the Board intends to take the following remedial actions: (i) circulating a memorandum to the staff of the Group to remind them of the obligations of the Listing Rules and to advise them to contact the company secretary in case of doubts; (ii) tightening the reporting procedure within the Group so that similar transactions will receive the attention of the Board; and (iii) providing training to the Group's staff to enhance their awareness of the Listing Rules. The secretary of the Company will be primarily responsible for overseeing the implementation of the above measures and compliance with the Listing Rules. And the Board will assume the overall responsibility for compliance with the Listing Rules. Copies of the memorandum and the training materials referred to in (i) and (iii) above will be provided to the Directors for information and to remind them of their obligations under the Listing Rules. The Company has admitted its breaches of the Listing Rules and the Stock Exchange reserves the right to take action against the Company and the Directors in this regard.

Fulcrest Limited, the controlling shareholder of the Company holding approximately 53% of the total issued capital of the Company at present and at the material time of the Transactions and not being interested in the Transactions, has indicated that it would have voted for the Transactions, had there been a shareholders' meeting to approve the Transactions. The Board has appointed AMS to advise the Independent Board Committee in relation to the Transactions.

8. RECOMMENDATION

The Directors considered that the terms of Transactions were fair and reasonable and the Transactions were in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to the "Letter from the Independent Board Committee" set out on page 13 of this circular which contains the advice from the Independent Board Committee to the Independent Shareholders and the "Letter from AMS Corporate Finance Limited" set out on pages 14 to 21 of this circular which contains the opinion of AMS to the Independent Board Committee in respect of the Transactions.

LETTER FROM THE BOARD

9. FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this circular including the valuation on the interest in Merry Tower.

Yours faithfully
By order of the Board
Great China Holdings Limited
John Ho Ming Tak
Managing Director



GREAT CHINA HOLDINGS LIMITED
大中華集團有限公司

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

20 January 2004

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS

We refer to the circular to the Company dated 20 January 2004 (the “Circular”), of which this letter forms part. The terms used in the Circular shall have the same meanings when used in this letter, unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, have been appointed by the Board to advise you as to whether the terms of the Transactions were fair and reasonable so far as the Independent Shareholders were concerned and the Transactions were in the interests of the Company and the Shareholders as a whole. AMS has been appointed as the independent financial adviser to advise us regarding the Transactions. Details of its opinion, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out in its letter on pages 14 to 21 of the Circular. Your attention is also drawn to the “Letter from the Board” set out on pages 4 to 12 and the additional information set out in the appendices to the Circular.

Having considered the principal factors, reasons and the opinion mentioned in the letter of opinion from AMS, we consider the terms of the Transactions were fair and reasonable so far as the Independent Shareholders were concerned and that the Transactions were in the interests of the Company and the Shareholders as a whole. Accordingly, we would have recommended the Independent Shareholders to vote in favour of the Transactions had general meetings been held.

Yours faithfully
For and on behalf of
Independent Board Committee

Lawrence Yu Kam Kee
Independent non-executive Director

David Yu Hon To
Independent non-executive Director

The following is the full text of the letter of opinion to the Independent Board Committee from AMS in connection with the Transactions, which has been prepared for the purpose of inclusion in this circular.



博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central
Hong Kong

20 January 2004

*To the Independent Board Committee of
Great China Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the terms of the Poppins Option and the Share Acquisition, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in this circular (the “Circular”) dated 20 January 2004 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 10 December 2003, it was announced by the Company that the grant of the Poppins Option and the Share Acquisition constituted connected transactions of the Company under the Listing Rules. Due to inadvertent oversight, the Directors were unaware that the Transactions constituted connected transactions under the Listing Rules, and therefore did not disclose the Transactions by way of press announcement or make them conditional on the approval by the Independent Shareholders before they were entered into. The Independent Board Committee comprising the two independent non-executive Directors, namely Messrs. Yu Kam Kee, Lawrence and Yu Hon To, David, has been formed to consider the Transactions and to advise the Independent Shareholders on the fairness and reasonableness of the Transactions. As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee as to whether or not the terms of the Transactions were fair and reasonable at the material time so far as the Independent Shareholders were concerned.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and its adviser. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Company and the Directors, for which they are solely and wholly responsible, were true and accurate at the time when they were given and continue to be so at the date hereof. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We consider that we have reviewed sufficient information to reach an informed view. We have not, however, conducted any independent verification of the information provided, nor have we carried out any form of in-depth investigation into the business and affairs of the Group or of the companies involved in the Transactions.

BACKGROUND INFORMATION

The Group is principally engaged in the general trading, property investments and provision of real estate agency services.

On 1 August 1997, the Company through its wholly owned subsidiary, Pakka entered into the Joint Venture Agreement with Mr Chiang for the establishment of Poppins which would in turn form a cooperative joint venture with two PRC parties to invest in a property project in Shanghai known as Merry Tower. Merry Tower comprises apartments, a shopping mall and car parking spaces. A summary of the terms of the Joint Venture Agreement was stated in the Letter from the Board. The First Supplemental Agreement dated 10 November 2000 and the Second Supplemental Agreement dated 5 September 2001 were entered into between Pakka and Mr Chiang. The incidents leading to and the reasons for entering into these two supplemental agreements were stated in the Letter from the Board.

Pursuant to the Second Supplemental Agreement, the Poppins Option details of which stated as below was granted to Mr Chiang. Mr Chiang exercised the Poppins Option on 1 May 2003 and 5,603 new shares in Poppins were allotted and issued to Mr Chiang.

Pursuant to the first right of refusal granted by Mr Chiang to Pakka under the Joint Venture Agreement, Mr Chiang undertook to offer to sell his interest in Poppins to Pakka at a fair price before offering to sell the same to any third party. On 5 May 2003, Mr Chiang served notice to Pakka offering to sell the Sale Shares to Pakka pursuant to the said first right of refusal. Pakka accepted the offer by Mr Chiang on 29 May 2003 and the Share Acquisition was completed on the same day. Upon completion of the Share Acquisition, Poppins became an indirect wholly owned subsidiary of the Company.

LETTER FROM AMS CORPORATE FINANCE LIMITED

For each of the two years ended 31 December 2001 and 2002, the unaudited losses after taxation of Poppins were HK\$526,707 and HK\$227,030 respectively. As at 31 December 2001 and 31 December 2002, the unaudited negative net asset value of Poppins before capitalization of the shareholders loans from Pakka (HK\$62,982,698) and Mr Chiang (HK\$3,044,000) were HK\$3,045,671 and HK\$3,272,701, respectively.

PRINCIPAL FACTORS AND REASONS CONSIDERED

Set out below are the principal factors and reasons considered by us in arriving at our views in respect of the grant and the terms of the Poppins Option and the Share Acquisition.

A. THE GRANT OF THE POPPINS OPTION

1. Details of the Poppins Option

Date of grant	:	5 September 2001
Grantor	:	Poppins
Grantee	:	Mr Chiang
Rights under the Poppins Option	:	to convert in full at any time during the exercise period (as set out below) the balance of the Participation Loan as at 4 September 2001 (together with interest thereon) totalling HK\$6,915,010.27 into shares in Poppins at an exercise price of HK\$1,234.13 per share which was based on the net asset value of Poppins as at 5 September 2001 of HK\$61,706,324.19 (assuming capitalization of the shareholders' loans by Pakka and Mr Chiang to Poppins)
Exercise period	:	any time during the three years from the date of grant (i.e. from 5 September 2001 to 4 September 2004)
Consideration for the grant	:	Mr Chiang agreeing to waive the interest of 10% per annum on the Participation Loan with effect from 5 September 2001, being the date of grant of the Poppins Option
Other terms	:	the right of Mr Chiang to share 40% of Poppins' operating profit under the Participation Loan will lapse immediately upon exercise of the Poppins Option

2. Reasons for the grant of the Poppins Option

Mr Chiang provided the Participation Loan to Poppins to finance its working capital requirements. The Participation Loan bore interest at a rate of 10% per annum before the grant of the Poppins Option. At the time of granting the Poppins Options on 5 September 2001, the Directors considered the Company might benefit from the grant in the following ways:

- (1) Poppins would enjoy immediate interest savings as a result of Mr Chiang's agreeing to waive the interest on the Participation Loan with effect from the date of the grant of the Poppins Option; and
- (2) the Participation Loan would be capitalized and hence the capital base of Poppins Options would be enlarged if Mr Chiang opted to exercise the Poppins option.

We consider that by capitalizing the Participation Loan, Poppins' cash resources can be preserved as there will not be any burden for interest payment or for the repayment of the Participation Loan. The waiver of Mr Chiang's right to share 40% of Poppins' operating profit under the Participation Loan upon exercise of the Poppins Options was also in the interest of the Group.

3. Terms of the Poppins Option

The exercise price of the Poppins Option was HK\$1,234.13 per share which, according to the Letter from the Board, was based on the net asset value of Poppins as at 5 September 2001 of HK\$61,706,324.19 (assuming capitalization of the shareholders' loans by Pakka and Mr Chiang to Poppins). As stated above, Poppins was established to form a joint venture with two PRC parties to invest in a property project in Shanghai known as Merry Tower. We have reviewed Poppins' unaudited balance sheet as at 5 September 2001. As at that date, Poppins had a negative net asset value of HK\$4,320,373.61, representing total assets of HK\$74,085,843.54 and total liabilities of HK\$78,406,217.15. The principal assets of Poppins as at 5 September 2001 were properties held for resale, i.e. its interests in Merry Tower. As stated in the Letter from the Board, Merry Tower is situated at the Jingan District in Shanghai, the PRC and Poppins' interests in Merry Tower include Basement Levels 1 to 3, Level 2 and Western Portion of Levels 1 and 3 of the shopping mall and Apartment Levels 6 to 15. On the other hand, the liabilities of Poppins as at 5 September 2001 were primarily shareholders' loans by Pakka and Mr Chiang which amounted to HK\$66,026,698 and purported to be capitalized pursuant to the First Supplemental Agreement, the Participation Loan and interest thereon totally HK\$6,915,010.27, and amount due to Pakka. As Poppins is primarily a property holding company and it was the intention of both Pakka and Mr Chiang to capitalize the shareholders' loans pursuant to the First Supplemental Agreement, we consider the determination of the exercise price of the Poppins Option by reference to the net asset value of Poppins (assuming capitalization of the shareholders' loans) was reasonable and fair. As stated in the section headed "Background Information" above, Poppins had unaudited losses for each of the two years ended 31 December 2001 and 2002. In view of this, we are of the view that any valuation method by reference to earnings such as price earnings multiple would not be appropriate.

Based on the above, we consider the grant of the Poppins Option was in the interest of the Company and the Shareholders as a whole and the terms of the Poppins Option were fair and reasonable insofar as the Independent Shareholders were concerned.

B. THE SHARE ACQUISITION

1. Details of the Share Acquisition

Acquisition	:	29 May 2003
Buyer	:	Pakka
Vendor	:	Mr Chiang
Assets acquired		8,013 shares in Poppins, being the entire interest of Mr Chiang in Poppins and representing approximately 14.41% of Poppins' total issued share capital
Consideration	:	RMB17,900,000 (approximately HK\$16,896,000) payable by eight instalments as follows:

	<i>RMB</i>
6 June 2003	6,000,000
30 June 2003	5,000,000
31 July 2003	1,000,000
31 August 2003	1,000,000
30 September 2003	1,000,000
31 October 2003	1,000,000
30 November 2003	1,000,000
31 December 2003	1,900,000
	<hr/>
	17,900,000
	<hr/> <hr/>

As indicated in the Letter from the Board, all eight instalments had already been paid to Mr Chiang.

2. Reasons for the Share Acquisition

As stated in the Letter from the Board, at the time of considering the offer of the Sale Shares by Mr Chiang, the Directors considered the property market in Shanghai promising in view of the sustained growth in property prices in the city. The Group also noted that the shopping mall in Merry Tower and Merry Hotel were pending for renovation in order to upgrade the facilities and standards compatible to an international 4-star hotel standard. The Group was of the view that such renovation and upgrade would enhance the market value of Merry Tower as a whole. In addition, Poppins entered into negotiations with potential tenants comprising mainly substantial tenants, which could ensure steady rental income.

LETTER FROM AMS CORPORATE FINANCE LIMITED

Property investments have been one of the Group's core businesses. As set out in the Group's annual reports and unaudited interim report, the breakdown of the Group's turnover and results by business segments for each of the two years ended 31 December 2002 and the six months ended 30 June 2003 is as follows:

	For the Six months ended 2003	For the year ended 31 December 2002	2001
Turnover (HK\$'000)			
General trading	467,170	652,793	672,066
Property investment	27,532	22,670	25,645
Real estate agency services	436	1,247	1,887
	495,138	676,710	699,599
	495,138	676,710	699,599
Segment results (HK\$'000)			
General trading	(3,168)	(13,336)	(10,991)
Property investment	11,442	16,233	15,696
Real estate agency services	(727)	(1,684)	(2,880)
	7,547	1,213	1,825
	7,547	1,213	1,825

As illustrated from the above table, property investment has been the Group's only profitable business during the period under review. In light of this, we are of the view that the Company had made a logical and reasonable strategic move to increase its investment in properties by acquiring the entire interest in Merry Tower owned by Mr Chiang.

Pursuant to the first right of refusal granted by Mr Chiang to Pakka under the Joint Venture Agreement, Mr Chiang undertook to offer to sell his interest in Poppins to Pakka at a fair price before offering to sell the same to any third party. If the offer of the Sale Shares by Mr Chiang had not been accepted by Pakka, Mr Chiang's entire interest in Poppins would have been sold to other third parties who might be unknown to the Group. In that case, the new shareholder or shareholders might have different opinion with Pakka in the company policy or business strategy for Poppins, such as further capital injection by shareholders and whether Poppins' investment properties should be held for long or short term purpose. We are of the view that it was reasonable for Pakka and was in the interest of the Company as a whole to consider accepting Mr Chiang's offer in order to avoid any unnecessary disagreements between shareholders that might arise.

3. Consideration of the Share Acquisition

The consideration for Mr Chiang's entire interest in Poppins was determined at RMB17,900,000 (approximately HK\$16,896,000) (representing approximately HK\$2,109 per share) and was equal to 14.41% of the adjusted net asset value of Poppins of HK\$117,255,923 (representing approximately HK\$2,109 per share). Adjustments were made on the unaudited asset value of Poppins as at 30 April 2003 amounted to HK\$68,486,880. We have reviewed the breakdown of these adjustments which comprised revaluation surplus on property and tax effects, details of which were stated in the Letter from the Board. The revaluation surplus was arrived at by reference to the valuation of Poppins' interest in the Merry Tower as at 21 May 2003 by an independent firm of professional valuers, details of which are contained in the report by FPD Savills as set out in Appendix I to the Circular.

We have read the valuation report and have discussed with FPD Savills the basis for its valuation and the methods used. On the basis that the above mentioned revaluation surplus in respect of Poppins' interest in the Merry Tower was based on the valuation by an independent firm of professional valuers, we consider that the consideration for the Share Acquisition, which had been determined primarily by reference to such valuation and the net asset value of Poppins as at 30 April 2003, was fair and reasonable.

The consideration for the Share Acquisition is payable by eight instalments as set out in the subsection headed "Details of the Share Acquisition". We consider that such payment terms were in the interest of the Group as it would not have any immediate strain on the Group's cash resources and the first instalment was only made about one week after the transfer of the title of the Sale Shares to Pakka on 29 May 2003.

4. Financial effect of the Share Acquisition

1. Impact on working capital

The consideration for the Share Acquisition was RMB17,900,000 (approximately HK\$16,896,000). As revealed from the Group's audited consolidated balance sheets as at 31 December 2002, cash and bank balances amounted to approximately HK\$82,373,000 of which approximately HK\$20,077,000 was unencumbered. Thus, the Group had sufficient cash to meet the consideration of the Share Acquisition at the time when the Directors made their decision to accept the offer of the Sale Shares by Mr Chiang. Since the consideration would be satisfied by eight instalments, the burden on the Group's cash resources would be relieved.

We also note that a total of RMB11,000,000 (approximately HK\$10,383,236) representing approximately 61.45% of the total consideration of RMB17,900,000 (approximately HK\$16,896,000) was paid in the first two instalments in June 2003. As revealed from the Group's unaudited interim report for the six months ended 30 June 2003, cash and bank balances amounted to HK\$110,724,000 of which the unencumbered portion had increased to approximately HK\$48,346,000. Based on the unaudited consolidated balance sheet of the Group as at 30 June 2003, we consider that the Group had a comfortable working capital position even after the payment of the majority of the consideration and sufficient resources to meet the remaining instalments without posing any strain on the Group's cash flow position.

2. *Impact on gearing or indebtedness*

As the consideration of the Share Acquisition would be satisfied by internal resources, we consider that the Share Acquisition has had no negative impact on the Group's gearing ratio or indebtedness position.

On the basis that the Share Acquisition was in the interest of the Company and the Shareholders and would not pose any adverse effect on the financial position of the Group and that the consideration for the Share Acquisition was fair and reasonable as discussed above, we consider that the overall terms of the Share Acquisition were fair and reasonable insofar as the Independent Shareholders were concerned.

CONCLUSIONS

Having considered the above principal factors and reasons, we are of the opinion that each of the grant of the Poppins Option and the Share Acquisition was in the interest of the Company and the Shareholders as a whole and the terms of each of which were fair and reasonable so far as the Independent Shareholders were concerned.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Alexander Tai
Managing Director

The following is the text of a letter with valuation certificate, prepared for the purpose of inclusion in this circular, received from FPD Savills, an independent property valuer, in connection with its valuation as at 21 May 2003 on the interests in Merry Tower.



20 January, 2004

Board of Directors
Great China Holdings Limited
6/F
No. 9 Des Voeux Road West
Hong Kong

FPDSavills (Hong Kong) Limited
23/F Two Exchange Square
Central, Hong Kong
EA Licence: C-002450

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The logo for FPD Savills International, consisting of the text 'FPDSavills' in a bold font inside a rectangular box, followed by the word 'International'.

Dear Sirs,

Basement Levels 1-3, Levels 1-3 and various residential units on Levels 6-15, Merry Tower, 168 Zhenning Road/396 Yanan Road West, Jingan District, Shanghai, the People's Republic of China

We refer to your instructions for us to value the property interests in the above property (the "Property"). We confirm that we have made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the open market value of the property interests as at 21 May, 2003 (the "Valuation Date").

Our valuation of the property interests is our opinion of the open market value of the Property which we would define as intended to mean "the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the Valuation Date, 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 the 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 prospective purchaser with a special interest; and

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

Our valuation has been made on the assumption that the Property is sold in the open market in its existing state without the benefit of a deferred term contract, joint venture, management agreement or any similar arrangement which could serve to affect its value. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the Property, and no allowance is made for the property interests to be sold to a single party and/or as a portfolio or portfolios. Furthermore, events that occurred subsequent to the Valuation Date are also not considered in the course of our valuation.

No allowance has been made in our report for any charges, mortgages or amounts owing on the Property 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 values.

Our valuation has been prepared in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5 of Listing Rules published by the Stock Exchange of Hong Kong and its Practice Note 12.

Unless otherwise stated, we have valued the property interests in the Property by using the comparison method of valuation. The method considers prices recently paid for similar properties, with adjustments made to the indicated market prices to reflect condition and utility of the property valued relative to the market comparable. Properties for which there is an established used market may be valued by this approach. In valuing the commercial portion of the property, the investment method of valuation is adopted, by taking into account the current rent passing or the hypothetical market rents and the reversionary potential of the property in consideration.

No structural survey has been made and we are therefore unable to report whether the Property are free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have been given copies of relevant title documents, but have not checked the title to the Property and have not scrutinised the original title documents. We have relied on the advice given by you and your legal advisers on PRC laws, Chen & Co. (the “PRC Legal Advisers”) regarding the title to the property interests. In our valuation, we have taken into account the legal opinion of the PRC Legal Advisers, and we have assumed that the owner of the property interests has enforceable title thereto. While we have exercised our professional judgement in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the you, and have accepted advice given to us on such matters as easements, tenure, tenancy details, floor areas, renovation scheme details and other relevant matters. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the document provided to us by the you

and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the you. We have also been advised by you that no material facts have been omitted from the information provided, and have no reason to suspect that any material information has been withheld.

We have not verified and make no representation that the Property, including any plant and equipment therein, is millennium complaint, or that the value of the Property is not adversely affected in any way by any part of them not being millennium complaint within the meaning of BSI definition of Year 2000 compliance.

Our valuation was denominated in Renminbi. The exchange rate used in our valuation is US\$1 to RMB8.28, which is the approximate prevailing rate as at the Valuation Date.

Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
FPDSavills (Hong Kong) Limited

William W L Wong
BLE, MRICS, MHKIS, RPS(GP)
Senior Director
Valuation and Consultancy

Samuel C K Young
BSc (Hons), MHKIS, RPS (GP), MCI Arb
Associate Director
Valuation and Consultancy

Note: Both Mr William W L Wong and Mr Samuel C K Young are Chartered Surveyors with over 15 years' valuation experience in Hong Kong and over 10 years' valuation experience on properties in the PRC.

VALUATION CERTIFICATE

The Property	Description and Tenure	Particulars of Occupancy	Open Market Value in its existing state as at 21 May 2003
Basement Levels 1-3, Levels 1-3 and various residential units on Levels 6-15, Merry Tower, 168 Zhenning Road/396 Yanan Road West, Jingan District, Shanghai, the People's Republic of China	The property comprises car parking spaces on 3 basement levels on the western portion; 3 levels of commercial space on the western podium; as well as 41 fully furnished residential apartments in Merry Tower, amounting to a total gross floor area of approximately 13,894.08 sq.m. (149,554 sq.ft.). Breakdown floor areas are as follows:-	Units D and E on Level 6 were owner-occupied; a portion of the car parking spaces was licenced. The remaining portion of the property was vacant.	RMB156,000,000

Function/Floor Level	Approximate Gross Floor Area (sq.m.)
Car Parking Spaces on Basement levels	3,268.40
Commercial space on Levels 1-3	3,534.83
Residential Apartments on Levels 6-15	7,090.85
Total	<u>13,894.08</u>

Merry Tower (the "Building") forms part of a larger development which consists of the Building and a hotel tower known as "Merry Hotel", overmounting a common 8-level (inclusive of 3 basement levels) commercial/car park podium. The Building comprises 23 levels (exclusive of the 8-level podium) of residential apartments, and was completed in or about 1998.

The property is held under a Certificate of Real Estate Ownership for a Land-Use Rights for composite uses for a term of 50 years from 20 December, 2001

Notes:

1. Pursuant to Certificate of Real Estate Ownership (Document No.: Hu Fang Di Jing Zi: (2001) No. 010331) dated 20 December 2001 issued by Shanghai Municipal Building and Land Resources Administration Bureau, the ownership of the Property is vested in 博平置業 (上海) 有限公司 (Poppins Development (Shanghai) Limited).
 2. Pursuant to the Certificate of Non-ownership Rights (Document No.: Hu Fang Di Jing Ta Zi (2003) No. 001572) dated 15 March 2003 issued by Shanghai Municipal Jingan District Real Estate Registration Institute, a mortgage in favour of The Bank of East Asia, Limited Shanghai Branch was registered against the Property in consideration to the extent of HK\$50,000,000.00.
 3. Pursuant to the Joint-Leasing Contract entered into between Poppins Development (Shanghai) Limited (Party A) and 上海美麗園大酒店有限公司 (Party B) dated 23 November 2002, Levels 1-3 of the property, owned by Party A is to be integrated with the podium of the Hotel owned by Party B as a whole, which shall be marketed to various tenants by the joint office to be set up by Party A and Party B, for 4-star hotel operation in line with the requirements by the State Tourism Bureau.
 4. Pursuant to Business License No. 029946 dated 30 July, 2002, Poppins Development (Shanghai) Limited is a foreign funded enterprise incorporated with a registered capital of US\$8,460,000 for a term of 50 years commencing on 14 December 2001 to 13 December 2051.
 5. According to an agreement for sale and purchase dated 16 April 2003, Unit D on Level 11, amounting to a gross floor area of 161.93 sq.m. (1,743 sq.ft.) or thereabouts, was agreed to be sold in consideration of RMB2,240,000. As at the Valuation Date, such consideration was fully settled and vacant possession was delivered. Title to this unit was not, however, transferred to the purchasers of the unit as at the Valuation Date. Valuation of this unit of the Property is stated at consideration aforesaid and is included in our valuation.
 6. In accordance with the PRC Laws, the maximum Land-use rights term granted for the Property which is for composite uses is 50 years, from 20 December, 2001.
 7. As at the Valuation Date, the commercial portion of the Property was planned to be renovated together with the commercial portion of Merry Hotel. Details of the proposed renovation in respect of this portion of the Property are as follows:
 - i) Duration : From June, 2003 to October/November, 2003
 - ii) Increase in Gross Floor Area : 302 sq.m. or thereabouts (3,251 sq.ft.)
 - iii) Estimated Cost of Works : About RMB6,000,000
- In the course of our valuation, we have not taken into account the increase in gross floor area mentioned above.
8. As at the Valuation Date, Level 3 of the Property was proposed to be leased for sauna and other entertainment uses, to form part of the ancillary facilities of Merry Hotel. The lease was proposed to be for a term of 10 years, commencing on 15 June, 2003, with rental payable commencing on 1 October, 2003. Rental are exclusive of water, gas, electricity, management and communication charges, etc., and would be RMB3.00 per sq.m. per day for the 1st year; RMB3.20 per sq.m. per day for the 2nd and 3rd years; and increased at a rate of 5% per annum on the 1st year rental thereafter.
 9. The PRC Legal Advisers have stated in their legal opinion, *inter alia*, the following:
 - i) 博平置業 (上海) 有限公司 (Poppins Development (Shanghai) Limited) (the “Company”) legally and effectively owns the Property under Certificate of Real Estate Ownership (Document No. Hu Fang Di Jing Zi (2001) No. 010331) dated 20 December, 2001;

ii) All costs in associated with the ownership of the Property have been fully paid for. The Company is not required to pay for extra land premium or government levies, or obtain other approvals from government authorities for having the rights to hold, occupy, transfer, sell or lease the Property throughout the remainder of the land-use rights term;

iii) The Property is subject to the following encumbrances:

The Company has entered into a <Mortgage Agreement> and three supplemental agreements thereto with the Bank of East Asia on 12 June, 2002, 20 January, 2003, 23 January, 2003 and 11 January, 2003 respectively. According to these agreements, the property, together with its respective land-use rights, are mortgaged with The Bank of East Asia as the first mortgagee. The Mortgage Agreement dated 12 June, 2002 is duly registered, and the Bank of East Asia is issued with Certificate of Non-Ownership Rights (Document No.: Hu Fang Di Jing Ta Zi (2003) No. 001572).

iv) The Company has the rights to transfer, lease and mortgage the Property or part thereof. Nevertheless, written consent from the Bank of East Asia would be required prior to the release of the abovementioned mortgage.

v) The Property and its respective land-use rights were acquired by Poppins Properties Limited (博平產業有限公司) on 19 October 2000 in an auction. The total acquisition cost was RMB70,050,673.40. It was injected into博平置業(上海)有限公司 as registered capital on 20 December, 2001.

10. A summary of major certificates/approvals is shown as follows:–

Certificates of Real Estate Ownership	Yes
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1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with 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 enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

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

Ordinary Shares of the Company

Directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Rustom Ho Ming Yu	–	–	138,347,288*	–	138,347,288
John Ho Ming Tak	–	600,000	138,347,288*	–	138,947,288

* *By virtue of the SFO, both Mr. Rustom Ho Ming Yu and Mr. John Ho Ming Tak are deemed to have interest in the 138,347,288 shares held by Fulcrest Limited. Interests in the same shares have been disclosed by Fulcrest Limited and others as substantial shareholders.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company or their respective associates had any personal, family, corporate or other interest in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) (a) which were required notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Interests of substantial Shareholders

So far as is known to any Director, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:–

Ordinary Shares of the Company

Substantial shareholders	Number of shares held	
	Director interest	Deemed interest
Fulcrest Limited	138,347,288	–
Raynor Holdings Limited	–	138,347,288
Seward Holdings Corp.	–	138,347,288
Asian Pacific Investment Corporation	–	138,347,288
Kwong Fong Holdings Limited	710,000	138,347,288
Kwong Fong Industries Corporation	8,680,000	139,057,288
Top Glory Holding Company Limited	45,058,000	–

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. LITIGATION

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

4. QUALIFICATION OF EXPERT

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

Name	Qualification
AMS Corporate Finance Limited	A corporation deemed licensed to carry on businesses in types 4, 6 and 9 regulated activities (advising on securities and corporate finance and asset management, respectively)
FPDSavills	Registered Professional Surveyor

5. EXPERT'S INTERESTS

As at the Latest Practicable Date, neither AMS nor FPDSavills had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. CONSENTS OF EXPERT

Each of AMS and FPDSavills has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name, in the form and context in which they respectively appear.

7. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2002 (the date to which the latest published audited consolidated accounts of the Group were made up).

8. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors has or proposes to have a service agreement with any member of the Group which is not expiring or determinable by such member within one year without payment of compensation (other than statutory compensation).

9. INTEREST OF DIRECTORS

- (i) None of the Directors has since 31 December 2002, being the date to which the latest published audited accounts of the Group have been made up, any direct or indirect interests in any assets acquired or disposed of or leased to or proposed to be acquired or disposed of by or leased to any member of the Group.
- (ii) None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

10. GENERAL

- (a) The secretary of the Company is Mr Alfred Leung.
- (b) The registered office of the Company is situated at 6th Floor, 9 Des Voeux Road West, Hong Kong.
- (c) The share registrar and transfer office of the Company in Hong Kong is Abacus Share Registrars Limited, 28th Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company at 6th Floor, 9 Des Voeux Road West, Hong Kong during normal business hours up to and including 5 February 2004:

- (a) the memorandum and articles of association of the Company;
- (b) the Joint Venture Agreement, the First Supplemental Agreement and the Second Supplemental Agreement;
- (c) the letter from the Independent Board Committee the text of which is set out on page 13 of this circular;
- (d) the letter from AMS Corporate Finance Limited to the Independent Board Committee, the text of which is set out on pages 14 to 21 of this circular;
- (e) the written consents of AMS and FPDSavills referred to in paragraph 6 of this appendix; and
- (f) the letter and valuation certificate from FPDSavills the text of which is set out in Appendix I to this circular.