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 you should take, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Dragon Hill Holdings Limited (the "**Company**"), you should at once hand this circular, together with the accompanying form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

DRAGON HILL HOLDINGS LIMITED

俊山集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

(1) Very substantial acquisition and connected transaction in relation to the proposed investment in a joint venture by the Company; (2) Proposed sale of shares in the Company by Dragon Hill Development Limited; (3) Continuing connected transactions; and (4) Proposed change of name of the Company

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

South China Capital Limited

A letter from the Board (as defined herein) is set out on pages 6 to 27 of this circular. A letter from the Independent Board Committee (as defined herein) to the Independent Shareholders (as defined herein) is set out on pages 28 to 29 of this circular. A letter from South China Capital (as defined herein), containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 47 of this circular.

A notice convening the SGM (as defined herein) to be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 July 2007 at 11:00 a.m. is set out on pages 157 to 159 of this circular. Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* *For identification purpose only*

25 June 2007

CONTENTS

Page

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

"Accountants' Report on the Wuling Industrial Group"	the accountants' report on the Wuling Industrial Group prepared in accordance with the Hong Kong Financial Reporting Standards for each of the three years ended 31 December 2004, 2005 and 2006 as set out in Appendix II to this circular
"Agreements"	the JV Agreements and the Share Sale Agreement
"Announcement"	the announcement of the Company dated 23 May 2007 in relation to the Proposed Transactions and the Proposed Continuing Connected Transactions
"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of the Directors
"Business Day"	a day, other than a Saturday, a Sunday, a public holiday and a day on which a tropical cyclone warning no. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
"Charged Shares"	all of the Shares owned by the Controlling Shareholder upon completion of the Proposed Share Sale which are agreed to be charged to Wuling (or its wholly-owned subsidiary(ies)) by the Controlling Shareholder under the Share Charge
"Company"	Dragon Hill Holdings Limited, a company incorporated in Bermuda and the Shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions Agreements"	the Tenancy Agreement, the Trademark Agreement and the Patent Agreement
"Controlling Shareholder"	Dragon Hill Development Limited, a company incorporated in Samoa which is solely and beneficially owned by Mr. Lee Shing, an executive Director and the Chairman of the Company, the controlling Shareholder which is interested in approximately 59.68% of the issued share capital of the Company as at the Latest Practicable Date
"Directors"	the directors of the Company
"Enlarged Group"	the Group immediately after establishment of the Joint Venture (which will be a 51%-owned subsidiary of the Company)
"Enlarged Registered Capital of Wuling Industrial"	the enlarged registered capital of Wuling Industrial in the amount of RMB767 million upon completion of the JV Capital Increase and Subscription Agreement

"Group"	the Company and its subsidiaries
"Guarantee Period"	the 36 month-period from the date of the Share Charge
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board comprising all of the three independent non-executive Directors, namely Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas, established for the purpose of advising the Independent Shareholders in relation to the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Controlling Shareholder, together with its associates, and who are not involved in any of the Proposed Transactions and the Proposed Continuing Connected Transactions
"Joint Venture"	the joint venture of the Company and Wuling to be set up by converting Wuling Industrial into a sino-foreign joint venture pursuant to the JV Agreements
"JV Agreements"	the JV Capital Increase and Subscription Agreement, the JV Set-up Agreement and the JV Articles of Association
"JV Articles of Association"	the new articles of association to be adopted by Wuling Industrial upon it has become the Joint Venture
"JV Business Licence"	the business licence of the Joint Venture to be issued by the relevant State Administration for Industry and Commerce of the PRC following completion of the JV Capital Increase and Subscription Agreement
"JV Capital Increase and Subscription Agreement"	the agreement dated 15 May 2007 entered into by Wuling and the Company in relation to the increase in the registered capital of Wuling Industrial and the subscription for 51% of the Enlarged Registered Capital of Wuling Industrial by the Company
"JV Set-up Agreement"	the joint venture agreement dated 15 May 2007 entered into by Wuling and the Company in relation to the establishment of the Joint Venture by converting Wuling Industrial into a sino-foreign joint venture
"JV Set-up Date"	the date on which Wuling Industrial becomes the Joint Venture, namely the date when the JV Business Licence is issued
"Latest Practicable Date"	22 June 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Leased Properties"	11 parcels of land and 82 buildings located in Liuzhou, Guangxi, the PRC, which will be leased by Wuling to the Joint Venture for the occupancy of such land and building by the Wuling Industrial Group pursuant to the Tenancy Agreement

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Patent"	a total of 158 types of patent rights and know-how of Wuling in relation to the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business which will be licensed to the Joint Venture in respect of the use of such patent rights and know-how by the Wuling Industrial Group pursuant to the Patent Agreement
"Patent Agreement"	the agreement to be entered into between Wuling and the Joint Venture in relation to the grant of a licence by Wuling to the Joint Venture to use the Patent
"PRC"	the Peoples' Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Previous Framework Agreement"	the framework agreement dated 2 March 2007 entered into by the Company, Wuling and the Controlling Shareholder which set out the principal terms and framework of, among other matters, the proposed investment by the Company in Wuling Industrial and the proposed sale of Shares by the Controlling Shareholder to Wuling and which has been superseded by the Revised Framework Agreement (details of which has been set out in the announcement of the Company dated 6 March 2007)
"Proposed Continuing Connected Transactions"	(1) the proposed lease of the Leased Properties by Wuling to the Joint Venture for the occupancy of the Leased Properties by the Wuling Industrial Group pursuant to the Tenancy Agreement; (2) the proposed grant of a licence by Wuling to the Joint Venture in respect of the use of the Trademark by the Wuling Industrial Group pursuant to the Trademark Agreement; and (3) the proposed grant of a licence by Wuling to the Joint Venture in respect of the use of the Patent by the Wuling Industrial Group pursuant to the Patent Agreement
"Proposed Share Sale"	the proposed sale of the Sale Shares by the Controlling Shareholder to Wuling (or its wholly-owned subsidiary(ies)) at the consideration of HK$0.29 per Sale Share, the terms and conditions of which are set out in the Share Sale Agreement
"Proposed Transactions"	the proposed investment by the Company in Wuling Industrial and the Proposed Share Sale
"Revised Framework Agreement"	the framework agreement dated 26 April 2007 entered into by the Company, Wuling and the Controlling Shareholder which has set out the principal terms and framework of the proposed investment by the Company in Wuling Industrial and the proposed sale of Shares by the Controlling Shareholder to Wuling and which has superseded the Previous Framework Agreement (details of which have been set out in the announcement of the Company dated 26 April 2007)
"Sale Shares"	266,500,000 Shares agreed to be sold by the Controlling Shareholder to Wuling pursuant to the Share Sale Agreement

"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to seek (i) the Independent Shareholders' approval in respect of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder; and (ii) the Shareholders' approval in respect of the change of name of the Company
"Share(s)"	ordinary share(s) of HK$0.004 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Charge"	the proposed charge of the Charged Shares to Wuling (or its wholly-owned subsidiary(ies)) by the Controlling Shareholder pursuant to the Share Charge Documents
"Share Charge Documents"	documents to be executed by the Controlling Shareholder in favour of Wuling (or its wholly-owned subsidiary(ies)) in respect of the Share Charge
"Share Sale Agreement"	the agreement dated 15 May 2007 entered into between the Controlling Shareholder and Wuling in connection with the Proposed Share Sale
"Share Sale Completion Date"	the date of completion of the Share Sale Agreement, which shall be the tenth Business Day following fulfilment or waiver (as the case may be) of all of the conditions of the Share Sale Agreement
"South China Capital"	South China Capital Limited, being a deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the respective terms of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Money"	the total amount of approximately RMB391 million (equivalent to approximately HK$394.95 million) payable by the Company to Wuling Industrial in respect of the Company's subscription for 51% of the Enlarged Registered Capital of Wuling Industrial pursuant to the JV Capital Increase and Subscription Agreement
"Tenancy Agreement"	the agreement to be entered into between Wuling and the Joint Venture in connection with the lease of the Leased Properties by the Joint Venture from Wuling for the occupancy of the Leased Properties by the Wuling Industrial Group

"Trademark"	certain registered trademarks of Wuling, details of which are set out in the paragraph headed "6.2 The Trademark Agreement" of the letter from the Board contained in this circular, to be licenced to the Joint Venture in respect of the use of such trademarks by the Wuling Industrial Group pursuant to the Trademark Agreement
"Trademark Agreement"	the agreement to be entered into between Wuling and the Joint Venture in relation to the grant of a licence by Wuling to the Joint Venture to use the Trademark
"Wuling"	柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited), a wholly state-owned limited enterprise established in the PRC
"Wuling Group"	Wuling and its subsidiaries (including the Wuling Industrial Group before completion of the JV Capital Increase and Subscription Agreement)
"Wuling Industrial"	柳州五菱汽車工業有限公司 (Liuzhou Wuling Motors Industrial Company Limited), a state-owned limited company established in the PRC and currently a wholly-owned subsidiary of Wuling
"Wuling Industrial Group"	Wuling Industrial (or the Joint Venture upon its establishment) and its subsidiaries
"Wuling Liuji Motors"	柳州五菱柳機動力有限公司 (Liuzhou Wuling Liuji Motors Company Limited), a state-owned limited company established in the PRC and a wholly-owned subsidiary of Wuling Industrial
"Wuling Motors United Development"	柳州五菱汽車聯合發展有限公司 (Liuzhou Wuling Motors United Development Company Limited), a state-owned limited company established in the PRC and an approximately 99.98%-owned subsidiary of Wuling Industrial
"Wuling Specialised Vehicles"	柳州五菱專用汽車製造有限公司 (Liuzhou Wuling Specialised Vehicles Manufacturing Company Limited), a state-owned limited company established in the PRC and an approximately 98%-owned subsidiary of Wuling Industrial
"HK$" and "HK cents"	Hong Kong dollars and Hong Kong cents respectively, the lawful currencies of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent

In this circular, unless otherwise specified, amounts in RMB are converted to HK$ at the conversion rate of HK$1.00 = RMB0.99 for illustration only. No representation is made that any amounts in RMB or HK$ could have been or could be converted at such rate or any other rates.

Certain English translation of Chinese names or words in this circular are included for information purpose only and should not be regarded as the official English translation of such Chinese names or words.

DRAGON HILL HOLDINGS LIMITED

俊山集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 305)

Executive Directors:
Mr. Lee Shing
Ms. Liu Yaling
Mr. Wang Shaohua
Mr. Pei Qingrong

Independent non-executive Directors:
Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Cheng Kin Wah, Thomas

Registered office:
Canon's Court,
22 Victoria Street,
Hamilton HM12,
Bermuda

Head office and principal place of business:
Unit 505, 5th Floor,
China Insurance Group Building,
141 Des Voeux Road Central,
Hong Kong

25 June 2007

To the Shareholders

Dear Sir or Madam,

(1) Very substantial acquisition and connected transaction in relation to the proposed investment in a joint venture by the Company;
(2) Proposed sale of shares in the Company by Dragon Hill Development Limited;
(3) Continuing connected transactions;
and
(4) Proposed change of name of the Company

1. INTRODUCTION

On 23 May 2007, the Board announced that based on the terms of the Revised Framework Agreement (which has superseded the Previous Framework Agreement), the relevant parties entered into the Agreements on 15 May 2007 to agree on the final terms relating to the Proposed Transactions (which include the proposed investment by the Company in Wuling Industrial and the Proposed Share Sale).

The Company has conditionally agreed to invest in Wuling Industrial, which is currently a wholly state-owned enterprise established in the PRC, by converting it into a sino-foreign joint venture (being the Joint Venture) pursuant to the JV Agreements (including the JV Capital Increase and Subscription Agreement, the JV Set-up Agreement and the JV Articles of Association). Pursuant to the JV Agreements, the Company will subscribe 51% of the Enlarged Registered Capital of Wuling Industrial at the Subscription Money of RMB391 million (equivalent to approximately HK$394.95 million).

* *For identification purpose only*

It is considered by the parties to the Agreements and the Directors that upon Wuling Industrial has become the Joint Venture, it will be in the parties' common interest to enhance the foundation for cooperation between the Company and Wuling by inviting Wuling to become a strategic investor of the Company. On that basis, the Share Sale Agreement was entered into by the Controlling Shareholder and Wuling, pursuant to which the parties have conditionally agreed to the sale of the Sale Shares, being 266,500,000 Shares which represent approximately 29.05% of the total number of issued Shares as at the Latest Practicable Date, by the Controlling Shareholder to Wuling (or its wholly-owned subsidiary(ies)).

In order to ensure that the business and operation of the Wuling Industrial Group will not be affected after Wuling Industrial has become the Joint Venture, Wuling and the Joint Venture will enter into the Continuing Connected Transactions Agreements on the JV Set-up Date, pursuant to which the Leased Properties will be leased by Wuling to the Joint Venture for the occupancy thereof by the Wuling Industrial Group, and licences will be granted by Wuling to the Joint Venture in respect of the use of the Trademark and the Patent by the Wuling Industrial Group during the period from the date of the Continuing Connected Transactions Agreements to 31 December 2009.

The subscription for 51% of the Enlarged Registered Capital of Wuling Industrial at the Subscription Money of RMB391 million (equivalent to approximately HK$394.95 million) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Moreover, Wuling has conditionally agreed to acquire the Sale Shares, which represent approximately 29.05% of the total number of issued Shares as at the Latest Practicable Date, by itself (or by its wholly-owned subsidiary(ies)) pursuant to the Share Sale Agreement. Accordingly, Wuling will become a substantial Shareholder upon the Share Sale Completion Date. In addition, upon the JV Set-up Date, Wuling will become a substantial shareholder of the Joint Venture, which will be a subsidiary of the Company at that time. Wuling will therefore be regarded as a connected person of the Company pursuant to the Listing Rules. Accordingly, the execution of the JV Agreements among the Company, Wuling and Wuling Industrial and the set up of the Joint Venture pursuant thereto constitute connected transactions for the Company under Chapter 14A of the Listing Rules, which require approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. In addition, as Wuling and the Joint Venture will become a substantial Shareholder and a subsidiary of the Company respectively upon completion of the Proposed Transactions, the Proposed Continuing Connected Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules upon execution of the Continuing Connected Transactions Agreements on the JV Set-up Date. The Proposed Continuing Connected Transactions also require the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. The SGM will be convened to approve the terms and execution of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder. The Controlling Shareholder and its associates will abstain from voting on the resolutions in respect of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder, at the SGM.

The Independent Board Committee comprising all of the independent non-executive Directors has been established to consider and advise the Independent Shareholders as to the fairness and reasonableness of the respective terms of the JV Agreements and the Continuing Connected Transactions Agreements. South China Capital has been appointed to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders as regards to the respective terms of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder.

In order to reflect the acquisition of the automobile business by the Group after completion of the Proposed Transactions, an ordinary resolution will be proposed at the SGM to change the Company name to "Dragon Hill Wuling Automobile Holdings Limited" in English and to adopt "俊山五菱汽車集團有限公司" as the new Chinese name (for identification purpose only).

The purpose of this circular is to provide you with, among other matters, (i) details of the Proposed Transactions and the Proposed Continuing Connected Transactions, which include the respective terms of the Agreements and the Continuing Connected Transactions Agreements; (ii) the relevant respective recommendations and advice of the Independent Board Committee and South China Capital; (iii) further information on the Group, Wuling and Wuling Industrial; (iv) detail of the proposed change of name of the Company; (v) the Accountants' Report on the Wuling Industrial Group; (vi) the unaudited pro forma financial information on the Enlarged Group; (vii) the property valuation report on the Enlarged Group; and (viii) the notice of SGM.

2. PROPOSED INVESTMENT BY THE COMPANY IN WULING INDUSTRIAL

The Company has conditionally agreed to invest in Wuling Industrial, which is currently a wholly state-owned enterprise established in the PRC, by converting it into a sino-foreign joint venture (being the Joint Venture) pursuant to the JV Agreements (including the JV Capital Increase and Subscription Agreement, the JV Set-up Agreement and the JV Articles of Association).

2.1 The JV Capital Increase and Subscription Agreement

Date: 15 May 2007.

Parties: The Company (in the capacity of equity subscriber), Wuling (in the capacity of existing equity holder), and Wuling Industrial.

2.1.1 *Subscription for the Enlarged Registered Capital of Wuling Industrial*

Wuling Industrial, a limited company established in the PRC, is currently a wholly-owned subsidiary of Wuling, a wholly state-owned enterprise established in the PRC. To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, Wuling Industrial, Wuling and its ultimate beneficial owner are third parties independent of the Group and its connected persons.

As at the Latest Practicable Date, the registered capital of Wuling Industrial is RMB150 million and is entirely owned by Wuling. Pursuant to the JV Capital Increase and Subscription Agreement, the parties thereto have conditionally agreed (1) to set up the Joint Venture by converting Wuling Industrial into a sino-foreign joint venture of the Company and Wuling; and (2) to increase the registered capital of Wuling Industrial to RMB767 million (being the Enlarged Registered Capital of Wuling Industrial), among which RMB376 million, being 49% of the Enlarged Registered Capital of Wuling Industrial, shall be contributed by Wuling by way of injection of the entire net assets of Wuling Industrial (the appraised net asset value of Wuling Industrial was approximately RMB376 million as at 31 December 2006) into the Joint Venture, and RMB391 million, being 51% of the Enlarged Registered Capital of Wuling Industrial, shall be contributed by the Company by way of cash.

2.1.2 ***The Subscription Money***

The Subscription Money in the amount of RMB391 million (equivalent to approximately HK$394.95 million) shall be payable by the Company in cash in two stages as follows:

(1) 20% of the Subscription Money will be paid within 30 days from the JV Set-up Date; and

(2) the remaining 80% will be paid within two years from the JV Set-up Date.

The Company intends that the first stage of the Subscription Money will be financed as to 50% by the Company's internal resources and as to the remaining 50% by bank borrowings. With regard to the second stage of the Subscription Money, the Company currently intends to finance the same by the Company's internal resources, bank borrowings and, if considered appropriate, proceeds from any future fund raising activity of the Company, but there is no definite plan in relation thereto as at the Latest Practicable Date.

The terms of the JV Capital Increase and Subscription Agreement, including the amount of the Subscription Money, were determined after arm's length negotiations between the Company and Wuling by taking into account the appraised net asset value of Wuling Industrial of approximately RMB376 million as at 31 December 2006 and the factors set out in the section headed "7. Reasons for the Proposed Transactions and the Proposed Continuing Connected Transactions" below. Based on the Subscription Money of RMB391 million to be paid by the Company and the appraised net asset value of Wuling Industrial of approximately RMB376 million to be injected into the Joint Venture by Wuling for subscribing 51% and 49% of the Enlarged Registered Capital of Wuling Industrial respectively, the respective costs of investment of the Company and Wuling per every 1% of equity interest in the Joint Venture are approximately the same. The Directors consider that the proposed investment by the Company in Wuling Industrial pursuant to the JV Agreements, which include, among other matters, the JV Capital Increase and Subscription Agreement, is in the interests of the Group and the Shareholders as a whole, and the terms of the JV Agreements are entered into by the parties thereto on normal commercial terms and are fair and reasonable.

2.1.3 ***Conditions of the JV Capital Increase and Subscription Agreement***

Completion of the JV Capital Increase and Subscription Agreement is subject to, among other matters, the following conditions:

(a) the establishment of the Joint Venture as well as the JV Agreements having been approved by the board of directors of Wuling and the Independent Shareholders;

(b) the increase in the registered capital of Wuling Industrial and the establishment of the Joint Venture having been approved by the relevant government authorities in the PRC;

(c) the acquisition of the Sale Shares by Wuling (or its wholly-owned subsidiary(ies)) having been approved by the relevant government authorities in the PRC and all approvals for the execution of the Share Sale Agreement having been obtained;

(d) all of the Continuing Connected Transactions Agreements having become unconditional in accordance with the respective terms thereof (other than the conditions in connection with the completion of the JV Capital Increase and Subscription Agreement); and

(e) the due execution of the JV Set-up Agreement and the JV Articles of Association.

None of the conditions of the JV Capital Increase and Subscription Agreement can be waived. If any of the conditions of the JV Capital Increase and Subscription Agreement are not fulfilled on or before 31 October 2007, the JV Capital Increase and Subscription Agreement will terminate and the proposed investment by the Company in Wuling Industrial will not proceed, and the parties to the JV Capital Increase and Subscription Agreement will have no claim against each other in respect of the JV Capital Increase and Subscription Agreement save for any antecedent breach thereof.

2.1.4 *Completion of the JV Capital Increase and Subscription Agreement*

Upon completion of the JV Capital Increase and Subscription Agreement and establishment of the Joint Venture by converting Wuling Industrial into a sino-foreign joint venture, the Joint Venture will become a 51%-owned subsidiary of the Company, and the financial results of the Joint Venture will be consolidated into the Company's accounts.

2.2 The JV Set-up Agreement and the JV Articles of Association

Date of each of the JV Set-up Agreement and the JV Articles of Association:	15 May 2007.
Parties to each of the JV Set-up Agreement and the JV Articles of Association:	The Company and Wuling (both in the capacity of holders of equity interest in the Joint Venture).

In order to regulate the business and management of, as well as the respective rights and obligations of the owners of the equity interests in, the Joint Venture in future, the Company and Wuling entered into the JV Set-up Agreement and the JV Articles of Association. The principal terms of the JV Set-up Agreement and the JV Articles of Association are as follows:

(1) *Operative term*

The operative term of the Joint Venture (being a limited liability company) will be 30 years from the JV Set-up Date and such term shall be extended upon agreement by the Company and Wuling and subject to the approval by the relevant government authorities and applicable rules and regulations, including the Listing Rules.

(2) *Business objectives*

The business objectives of the Joint Venture are to develop, establish and operate an enterprise engaging in manufacturing of motor vehicle engine, parts and special mini-vehicles, and to obtain satisfactory economic benefits for the Company and Wuling.

(3) *Transfer restrictions on the equity interests in the Joint Venture*

The transfer of any equity interest in the Joint Venture by an equity holder is subject to written approval of the other equity holder (which shall have first right of refusal in respect of such transfer) and of the relevant government authorities in the PRC.

(4) *Management of the Joint Venture*

The board of directors of the Joint Venture will comprise nine (9) directors, of which five (5) will be nominated by the Company and four (4) will be nominated by Wuling. The chairman and vice-chairman of the board of directors of the Joint Venture shall be nominated by the Company and Wuling respectively.

(5) *Profit distribution*

Any distribution of the distributable net profit of the Joint Venture will be determined by the board of directors of the Joint Venture and will be made to the equity holders of the Joint Venture in accordance with their respective equity interests therein, provided that distribution will be made according to the amounts of registered capital paid up by the equity holders before full payment of the subscription money by any equity holder in relation to its subscription for the Enlarged Registered Capital of Wuling Industrial.

The Directors consider that the proposed investment by the Company in Wuling Industrial pursuant to the JV Agreements, which include, among other matters, the JV Set-up Agreement and the JV Articles of Association, is in the interests of the Group and the Shareholders as a whole, and the JV Agreements are entered into by the parties thereto on normal commercial terms and are fair and reasonable.

2.3 Date on which the JV Agreements shall become effective

Pursuant to condition (a) of the Share Sale Agreement referred to in the paragraph headed "3.3 Conditions of the Share Sale Agreement" under the section headed "3. The Share Sale Agreement" below, completion of the Share Sale Agreement is subject to the establishment of the Joint Venture having been duly approved and/or registered by the relevant PRC government authorities and the Company having been duly approved as an equity holder of the Joint Venture. Accordingly, it is contemplated that the JV Agreements (including the JV Capital Increase and Subscription Agreement, the JV Set-up Agreement and the JV Articles of Association) shall become effective prior to the completion of the Share Sale Agreement. However, under the JV Set-up Agreement, if the Proposed Share Sale does not proceed to completion in accordance with the terms of the Share Sale Agreement, the Company shall unconditionally assist Wuling to attend to the relevant procedures in converting Wuling Industrial back to a wholly-owned subsidiary of Wuling, and Wuling shall procure Wuling Industrial to refund the Company any amount of the Subscription Money already paid by the Company.

3. THE SHARE SALE AGREEMENT

Date: 15 May 2007.

Vendor: The Controlling Shareholder, which is interested in approximately 59.68% of the issued share capital of the Company as at the Latest Practicable Date.

Purchaser: Wuling.

Warrantor: Mr. Lee Shing, the sole beneficial owner and sole director of the Controlling Shareholder.

3.1 Sale Shares

The Controlling Shareholder and Wuling have conditionally agreed to the sale of the Sale Shares, being 266,500,000 Shares which represent approximately 29.05% of the issued share capital of the Company as at the Latest Practicable Date, by the Controlling Shareholder to Wuling (or its wholly-owned subsidiary(ies)) free from all liens, charges and encumbrances and together with all rights attaching thereto as at and after the Share Sale Completion Date, including all dividends and distributions that may be declared, made or paid on or after the Share Sale Completion Date.

3.2 Consideration for the Sale Shares

The consideration per Sale Share of HK$0.29 was negotiated and determined on an arm's length basis between the Controlling Shareholder and Wuling during the course of negotiation of the terms of the Previous Framework Agreement after taking into account (i) the unaudited net asset value per Share of approximately HK$0.0249 as at 30 June 2006 (based on the unaudited consolidated net asset value of the Group of HK$19,075,483 as at 30 June 2006 and a total of 767,288,049 Shares in issue as at the date of Previous Framework Agreement); (ii) the net proceeds of approximately HK$8.7 million from a rights issue of the Company which was completed on 5 September 2006; (iii) the audited consolidated net loss of the Group of HK$8,756,390 for the year ended 31 December 2005 and the unaudited consolidated net profit of the Group of HK$24,901,840 for the six months ended 30 June 2006; and (iv) the trading performance, in terms of prices and trading volume, of the Shares on the Stock Exchange.

The consideration per Sale Share of HK$0.29 represents (i) a discount of approximately 76.6% to the closing price of the Shares as quoted on the Stock Exchange on 2 February 2007, being the last day of trading in the Shares on the Stock Exchange prior to the execution of the Previous Framework Agreement, of HK$1.24 per Share; (ii) a discount of approximately 70.4% to the average of the daily closing prices of the Shares as quoted on the Stock Exchange during the 30-trading day period up to and including 2 February 2007 of approximately HK$0.98 per Share; (iii) a discount of approximately 66.7% to the average of the daily closing prices of the Shares as quoted on the Stock Exchange during the 60-trading day period up to and including 2 February 2007 of approximately HK$0.87 per Share; (iv) a discount of approximately 83.1% to the closing price of the Shares as quoted on the Stock Exchange on 11 May 2007, being the last day of trading in the Shares on the Stock Exchange prior to the publication of the Announcement, of HK$1.72 per Share; and (v) a discount of approximately 84.7% to the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date of HK$1.89 per Share.

The total consideration for the Sale Shares of approximately HK$77.29 million will be payable by Wuling to the Controlling Shareholder upon completion of the Share Sale Agreement, which shall take place on the tenth Business Day following the fulfilment or waiver (as the case may be) of all of the conditions of the Share Sale Agreement.

3.3 Conditions of the Share Sale Agreement

Completion of the Share Sale Agreement is subject to the conditions as follows:

(a) the establishment of the Joint Venture having been duly approved and/or registered by the relevant PRC government authorities and the Company having been duly approved as an equity holder of the Joint Venture;

(b) the Continuing Connected Transactions Agreements having been approved by the Independent Shareholders;

(c) all necessary approvals having been obtained by Wuling in relation to the acquisition of the Sale Shares by Wuling (or its wholly-owned subsidiary(ies)) from the relevant government authorities;

(d) the Continuing Connected Transactions Agreements having become unconditional in accordance with the terms thereof (other than the conditions in connection with completion of the Share Sale Agreement);

(e) Wuling having been satisfied with the results of the due diligence review on the Group;

(f) all necessary consents and approvals for the change of substantial shareholders of Dragon Hill Financial Services Limited (a wholly-owned subsidiary of the Company, which is a licensed corporation under the SFO and the holder of a trading right on the Stock Exchange) having been obtained from the SFC and Hong Kong Exchanges and Clearing Limited;

(g) (i) on or before the Share Sale Completion Date, the current listing status of the Shares not having been withdrawn and the Shares continuing to be traded on the Stock Exchange (save for any temporary suspension pending approval of the Share Sale Agreement by the SFC or the Stock Exchange); and (ii) no indication having been received from the Stock Exchange or the SFC to the effect that the listing of Shares may be withdrawn or objected to;

(h) all necessary consents and approvals from any third parties in relation to the Proposed Share Sale having been obtained; and

(i) the Controlling Shareholder as vendor of the Sale Shares and Mr. Lee Shing as the warrantor under the Share Sale Agreement not having materially breached the warranties, representations and/or undertakings given or made by each of them.

If any of the conditions of the Share Sale Agreement are not fulfilled (conditions (c), (f) and (h) must be fulfilled and cannot be waived), or waived (as to conditions (a), (b), (d), (e), (g) and (i) only) by written notice by Wuling, or that Wuling has informed the Controlling Shareholder that it is not satisfied with the results of the due diligence review conducted pursuant to the conditions above on or before 31 October 2007 (or such other date to be agreed by the Controlling Shareholder and Wuling), the Share Sale Agreement will terminate and the Proposed Share Sale will not proceed, and the parties to the Share Sale Agreement will have no claim against each other in respect of the Share Sale Agreement save for any antecedent breach thereof.

3.4 Completion of the Share Sale Agreement

Completion of the Share Sale Agreement shall take place on the Share Sale Completion Date, being the tenth Business Day following the fulfilment or waiver (as the case may be) of all of the conditions of the Share Sale Agreement.

As at the Latest Practicable Date, the Board comprises four (4) executive Directors and three (3) independent non-executive Directors. Three (3) persons nominated by Wuling will be appointed as executive Directors and it is the intention of the existing Directors that they will not resign upon completion of the Share Sale Agreement.

The shareholding structure of the Company upon completion of the Share Sale Agreement is set out in the section headed "10. Information on Wuling and Wuling Industrial" below.

4. GUARANTEES FROM THE CONTROLLING SHAREHOLDER AND THE SHARE CHARGE

Having taken into account the proposed investment in Wuling Industrial by the Company as well as the Proposed Share Sale, the Controlling Shareholder has agreed to guarantee and undertake to procure (i) the due performance of the Company under the JV Agreements, and (ii) the Company not to allot and issue any new Shares without the prior written consent of Wuling during the Guarantee Period. As security of such guarantees and undertakings, the Controlling Shareholder has agreed that the Charged Shares, being all of the Shares held by it upon completion of the Proposed Share Sale, shall be charged to Wuling (or its wholly-owned subsidiary(ies)) by executing the Share Charge Documents simultaneously with the completion of the Share Sale Agreement, and that if the Company fails to duly perform its obligations pursuant to any of the JV Agreements or if the Company issues any new Shares in breach of its undertaking, Wuling (or its wholly-owned subsidiary(ies)) shall have the right to acquire the Charged Shares from the Controlling Shareholder at the price of HK$0.29 per Charged Share during the Guarantee Period. In addition, the Controlling Shareholder has agreed to grant a first right of refusal to Wuling and its wholly-owned subsidiary(ies) in respect of the disposal of any Charged Shares by the Controlling Shareholder in future by entering into the Share Charge Documents.

5. UNDERTAKINGS FROM THE COMPANY TO WULING

In view of its investment in Wuling Industrial and the Proposed Share Sale, the Company has undertaken to Wuling (i) not to allot and issue any Shares or securities convertible into Shares during the Guarantee Period without the prior written consent of Wuling; and (ii) Wuling (and its wholly-owned subsidiary(ies)) will have a first right of refusal in respect of the subscription for new Shares that may be allotted and issued by the Company.

6. PROPOSED CONTINUING CONNECTED TRANSACTIONS

In order to ensure that the business and operation of Wuling Industrial will not be affected after it has become the Joint Venture, Wuling and the Joint Venture will enter into the Continuing Connected Transactions Agreements, including the Tenancy Agreement, the Trademark Agreement and the Patent Agreement on the JV Set-up Date, and the Continuing Connected Transactions Agreements shall become effective also on the JV Set-up Date.

6.1 The Tenancy Agreement

Date:	To be entered into on the JV Set-up Date.
Landlord:	Wuling.
Tenant:	The Joint Venture.
Leased Properties:	11 parcels of land and 82 buildings which are located in Liuzhou, Guangxi, the PRC. The total floor area of the land and buildings are approximately 623,464.40 square metres and 223,136.74 square metres respectively. The Leased Properties are currently leased by Wuling to Wuling Industrial and are used as offices and production plants of the Wuling Industrial Group and will continue to be used by the Joint Venture and its subsidiaries for such purposes under the Tenancy Agreement after the Joint Venture has become a subsidiary of the Company upon its establishment.
Rental and terms:	A total of RMB2,346,000 per month payable in arrears on the last day of each calendar month for the period from the date of the Tenancy Agreement to 31 December 2009 (both dates inclusive). The rent payable pursuant to the terms of the Tenancy Agreement was determined by the parties upon arm's length negotiations based on the rentals of the properties in the vicinity to the Leased Properties and the current rental payable by Wuling Industrial for the use of the Leased Properties as mentioned in the paragraph headed "6.1.1 Historical amounts in respect of the use of the Leased Properties" below).

6.1.1 *Historical amounts in respect of the use of the Leased Properties*

After the establishment of Wuling Industrial in October 2006, Wuling and Wuling Industrial entered into an agreement in relation to the lease of the Leased Properties by Wuling to Wuling Industrial with effect from 1 January 2007 at the monthly rental of RMB2,346,000. During the period from 1 January 2007 to 31 May 2007, the rental payable by Wuling Industrial to Wuling under such agreement was RMB11,730,000 in aggregate.

6.1.2 *Annual cap for the rental payable by the Joint Venture under the Tenancy Agreement*

The annual cap for the rental payable by the Joint Venture to Wuling under the Tenancy Agreement for each of the three financial years ending 31 December 2009 will be not more than RMB16,422,000, RMB28,152,000 and RMB28,152,000 respectively. The annual cap for the year ending 31 December 2007 is determined based on the monthly rental of RMB2,346,000 under the Tenancy Agreement multiplied by the remaining number of months in 2007 after publication of the Announcement which contained, among other matters, details of the Tenancy Agreement and the transactions contemplated thereunder, while the annual cap for each of the years ending 31 December 2008 and 2009 is determined based on the annual rental payable under the Tenancy Agreement. The Directors consider that execution of the Tenancy Agreement, which is on normal commercial terms, is in the interests of the Enlarged Group, which shall include the Wuling Industrial Group when Wuling Industrial becomes the Joint Venture and a 51%-owned subsidiary of the Company, and the Shareholders as a whole, and the terms of the Tenancy Agreement (including the rental payable pursuant thereto as well as the annual cap for the rental payable by the Joint Venture) are fair and reasonable.

6.2 The Trademark Agreement

Date: To be entered into on the JV Set-up Date.

Licensor: Wuling.

Licensee: The Joint Venture.

6.2.1 ***Subject of the licence***

Pursuant to the Trademark Agreement, Wuling will grant a non-exclusive licence to the Joint Venture in respect of the use by the Joint Venture and its subsidiaries of the following Trademark (being registered trademarks of Wuling), including the use of the Trademark on their products and the use of words "五菱" in their respective names:

The term of the licence shall be for a period from the date of the Trademark Agreement to 31 December 2009 (both dates inclusive). The Directors consider that it is a normal business practice to enter into the arrangement as set out in the Trademark Agreement.

6.2.2 ***Licence fee***

A licence fee of RMB2,000,000 per year (equivalent to approximately RMB166,667 per month) shall be payable by the Joint Venture in arrears on 31 December each year during the term of the licence and will be calculated in proportion to the number of months of use of the Trademark by the Joint Venture and its subsidiaries under the Trademark Agreement if the Trademark is not used by them for a full year under the Trademark Agreement.

The terms of the Trademark Agreement, including the licence fee payable thereunder, were determined by the parties upon arm's length negotiations with reference to (i) the audited consolidated net profit of Wuling Industrial for the financial year ended 31 December 2006 (as set out in the Accountants' Report on the Wuling Industrial Group, the audited consolidated net profit attributable to equity holders of Wuling Industrial for the year ended 31 December 2006 amounted to approximately RMB267,761,000; hence the annual licence fee payable under the Trademark Agreement in the amount of RMB2,000,000 represents approximately 0.75% thereof); and (ii) and the current licence fee payable by Wuling Industrial for the use of the Trademark as mentioned in the paragraph headed "6.2.3 Historical amount in respect of use of the Trademark" below. The Trademark is important for the Joint Venture and its subsidiaries in carrying out their business, being the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business. It is considered by the parties to the Trademark Agreement that it is appropriate to make reference to the financial results of the Wuling Industrial Group for determination of the licence fee payable under the Trademark Agreement.

6.2.3 ***Historical amounts in respect of the use of the Trademark***

After the establishment of Wuling Industrial in October 2006, Wuling and Wuling Industrial entered into an agreement in relation to the grant of a licence to the Wuling Industrial Group to use the Trademark with effect from 1 January 2007 at the annual licence fee of

RMB2,000,000 (equivalent to approximately RMB166,667 per month). During the period from 1 January 2007 to 31 May 2007, the licence fee payable by Wuling Industrial to Wuling under such agreement was approximately RMB833,000 in aggregate.

6.2.4 ***Annual cap for the licence fee payable by the Joint Venture under the Trademark Agreement***

The annual cap for the licence fee payable by the Joint Venture to Wuling under the Trademark Agreement for each of the three financial years ending 31 December 2009 will be not more than RMB1,200,000, RMB2,000,000 and RMB2,000,000 respectively. The annual cap for the year ending 31 December 2007 is determined based on the licence fee under the Trademark Agreement for the remaining number of months in 2007 after publication of the Announcement which contained, among other matters, details of the Trademark Agreement and the transactions contemplated thereunder, while the annual cap for each of the years ending 31 December 2008 and 2009 is determined based on the annual licence fee payable under the Trademark Agreement. After taking into account the use of the Trademark by the Joint Venture and its subsidiaries for their business and the fact that the annual licence fee payable under the Trademark Agreement only represents approximately 0.75% of the audited consolidated net profit attributable to equity holders of Wuling Industrial for the year ended 31 December 2006 as a mentioned above, the Directors consider that the execution of the Trademark Agreement is in the interests of the Enlarged Group, which shall include the Wuling Industrial Group when Wuling Industrial becomes the Joint Venture and a 51%-owned subsidiary of the Company, and the Shareholders as a whole, and the terms of the Trademark Agreement (including the licence fee payable for the Trademark thereunder and the annual cap in relation thereto), which are on normal commercial terms, are fair and reasonable.

6.3 The Patent Agreement

Date: To be entered into on the JV Set-up Date.

Licensor: Wuling.

Licensee: The Joint Venture.

6.3.1 ***Subject of the licence***

Pursuant to the Patent Agreement, Wuling will grant a non-exclusive licence to the Joint Venture to in respect of the use by the Joint Venture and its subsidiaries of the Patent (being an aggregate of 158 types of patent rights and know-how of Wuling in relation to the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business).

The term of the licence shall be for a period from the date of the Patent Agreement to 31 December 2009 (both dates inclusive). The Directors consider that it is a normal business practice to enter into the arrangement as set out in the Patent Agreement.

6.3.2 ***Licence fee***

A licence fee of RMB1,300,000 per year (equivalent to approximately RMB108,333 per month) shall be payable by the Joint Venture in arrears on 31 December each year during the term of the licence and will be calculated in proportion to the number of months of use of the Patent by the Joint Venture and its subsidiaries under the Patent Agreement if the Patent is not used by them for a full year under the Patent Agreement.

The terms of the Patent Agreement, including the licence fee payable thereunder, were determined by the parties upon arm's length negotiations with reference to (i) the audited consolidated net profit of Wuling Industrial for the financial year ended 31 December 2006 (the annual licence fee payable under the Patent Agreement in the amount of RMB1,300,000 represents approximately 0.49% of the audited consolidated net profit attributable to equity holders of Wuling Industrial for the year ended 31 December 2006 in the amount of approximately RMB267,761,000 as set out in the Accountants' Report on the Wuling Industrial Group); and (ii) and the current licence fee payable by Wuling Industrial for the use of the Patent as mentioned in the paragraph "6.3.3 Historical amounts in respect of the use of the Patent" below. The Patent is important for the Joint Venture and its subsidiaries in carrying out their business, being the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business. It is considered by the parties to the Patent Agreement that it is appropriate to make reference to the financial results of the Wuling Industrial Group for determination of the licence fee payable under the Patent Agreement.

6.3.3 ***Historical amounts in respect of the use of the Patent***

After the establishment of Wuling Industrial in October 2006, Wuling and Wuling Industrial entered into an agreement in relation to the grant of a licence to the Wuling Industrial Group to use the Patent with effect from 1 January 2007 at the annual licence fee of RMB1,300,000 (equivalent to approximately RMB108,333 per month). During the period from 1 January 2007 to 31 May 2007, the licence fee payable by Wuling Industrial to Wuling under such agreement was approximately RMB542,000 in aggregate.

6.3.4 ***Annual cap for the licence fee payable by the Joint Venture under the Patent Agreement***

The annual cap for the licence fee payable by the Joint Venture to Wuling under the Patent Agreement for each of the three financial years ending 31 December 2009 will be not more than RMB800,000, RMB1,300,000 and RMB1,300,000 respectively. The annual cap for the year ending 31 December 2007 is determined based on the licence fee under the Patent Agreement for the remaining number of months in 2007 after publication of the Announcement which contained, among other matters, details of the Patent Agreement and the transactions contemplated thereunder, while the annual cap for each of the years ending 31 December 2008 and 2009 is determined based on the annual licence fee payable under the Patent Agreement. After taking into account the use of the Patent by the Joint Venture and its subsidiaries for their business and the fact that the annual licence fee payable under the Patent Agreement only represents approximately 0.49% of the audited consolidated net profit attributable to equity holders of Wuling Industrial for the year ended 31 December 2006 as mentioned above, the Directors consider that the execution of the Patent Agreement is in the interests of the Enlarged Group, which shall include the Wuling Industrial Group when Wuling Industrial becomes the Joint Venture and a 51%-owned subsidiary of the Company, and the

Shareholders as a whole, and the terms of the Patent Agreement (including the annual licence fee payable thereunder and the annual cap in relation thereto), which are on normal commercial terms, are fair and reasonable.

7. REASONS FOR THE PROPOSED TRANSACTIONS AND THE PROPOSED CONTINUING CONNECTED TRANSACTIONS

The Group is currently principally engaged in securities dealing and margin financing, money lending and property investment. During the years ended 31 December 2005 and 2006, the Group recorded an audited consolidated net loss of approximately HK$8.76 million and an audited consolidated net profit of approximately HK$22.07 million respectively.

The Wuling Industrial Group is principally engaged in the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business in the PRC. Wuling Industrial was established pursuant to the re-organisation of Wuling Group in October 2006. As set out in the Accountants' Report on the Wuling Industrial Group, its audited consolidated net profits before and after tax and minority interests (i) amounted to approximately RMB152.50 million and RMB129.84 million respectively during the year ended 31 December 2005; and (ii) amounted to approximately RMB323.54 million and RMB267.76 million respectively during the year ended 31 December 2006.

The Directors are of the view that as the demand for automobiles in the PRC remains strong, it is in the interest of the Group by entering into the car manufacturing and related industry in the PRC. Hence, the Directors consider that the investment in Wuling Industrial provides a business opportunity for the Company to participate in the car manufacturing related industry in the PRC, which in turn will not only diversify the business and markets of the Group, but will also help broadening the Company's revenue base and resulting in positive impact on the Company's profitability in future.

The parties to the Agreements and the Directors consider that upon Wuling Industrial has become the Joint Venture, it will be in the parties' common interest to enhance the foundation for cooperation between the Company and Wuling by inviting Wuling to become a strategic investor of the Company. On that basis, the Share Sale Agreement was entered into by the parties thereto.

At present, Wuling Industrial is a wholly-owned subsidiary of Wuling and the Wuling Industrial Group (i) has occupied the Leased Properties, and (ii) has employed the Trademark and the technology under the Patent for its business and operation.

In order to ensure that the business and operation of the Wuling Industrial Group will not be affected after Wuling Industrial has become the Joint Venture, Wuling and the Joint Venture will enter into the Tenancy Agreement, the Trademark Agreement and the Patent Agreement on the JV Set-up Date. The Directors consider that such arrangement is necessary for the business and operation of the Enlarged Group, which shall include the Wuling Industrial Group, and it is also in the interests of the Enlarged Group and the Shareholders as a whole.

8. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS ON THE GROUP

Upon completion of the Proposed Transactions, among other things, the Company's subscription for 51% of the Enlarged Registered Capital of Wuling Industrial, the Group will be interested in 51% in the equity interest of the Joint Venture. The Joint Venture will become a non-wholly owned subsidiary of the Company and its results as well as its assets and liabilities will be consolidated in the consolidated financial statements of the Enlarged Group.

8.1 Earnings

The Group recorded an audited consolidated net profit attributable to equity holders of the Company of approximately HK$22,066,000 for the year ended 31 December 2006. Based on the unaudited pro forma financial information on the Enlarged Group set out in Appendix III to this circular, the unaudited consolidated profit of the Enlarged Group (before deduction of the minority interests) would be increased by approximately HK$237,674,000 to approximately HK$259,740,000, assuming the completion of the Company's subscription for 51% of the Enlarged Registered Capital of Wuling Industrial had been completed on 1 January 2006. For further details, please refer to Appendix III to this circular.

8.2 Assets and liabilities

As at 31 December 2006, the audited consolidated total assets of the Group were approximately HK$71,071,000. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III to this circular, total assets as at 31 December 2006 would be increased by approximately HK$3,830,920,000 to approximately HK$3,901,991,000. For further details, please refer to Appendix III to this circular.

As at 31 December 2006, the audited consolidated total liabilities of the Group were approximately HK$37,706,000. Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix III to this circular, total liabilities as at 31 December 2006 would be increased by approximately HK$3,453,621,000 to approximately HK$3,491,327,000. For further details, please refer to Appendix III to this circular.

9. INFORMATION ON THE GROUP AND THE CONTROLLING SHAREHOLDER

The Company was incorporated in Bermuda with limited liability and the Shares are listed on the main board of the Stock Exchange. The Group is principally engaged in securities dealing and margin financing, money lending and property investment.

The Controlling Shareholder, a company incorporated in Samoa which is solely and beneficially owned by Mr. Lee Shing, an executive Director and the Chairman of the Company, is interested in 547,459,613 Shares, representing approximately 59.68% of the issued share capital of the Company as at the Latest Practicable Date.

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date (based on the information received by Company and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) and immediately before completion of the Share Sale Agreement (assuming that there is no change to the shareholding structure of the Company after the Latest Practicable Date up to the Share Sale Completion Date); and (ii) immediately upon completion of the Share Sale Agreement (based on the shareholding structure of the Company as at the Latest Practicable Date and after taking into account the transactions contemplated under the Share Sale Agreement):

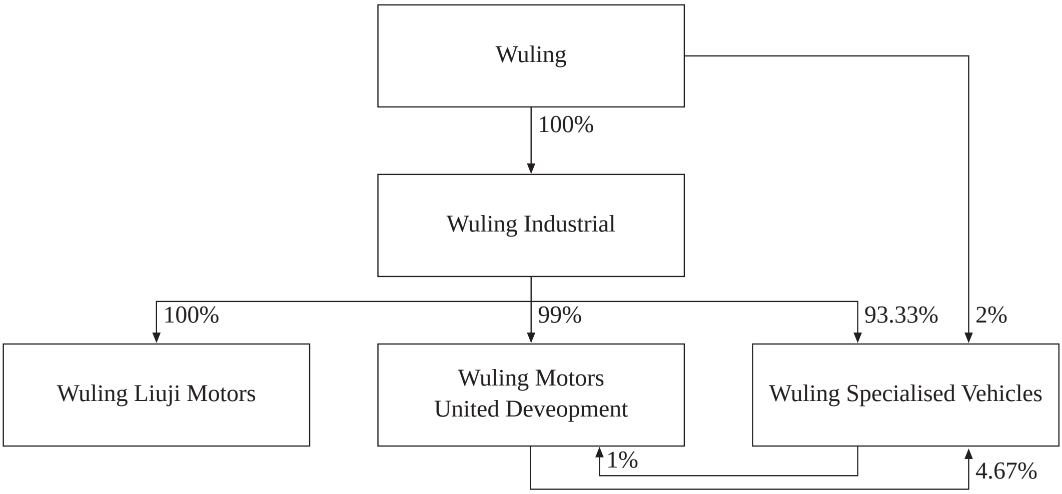
Shareholder	**As at the Latest Practicable Date and immediately before completion of the Share Sale Agreement**		**Immediately upon completion of the Share Sale Agreement**	
	(Shares)	*(%)*	*(Shares)*	*(%)*
The Controlling Shareholder	547,459,613	59.68	280,959,613	30.63
Wuling	—	—	266,500,000	29.05
Public	369,828,436	40.32	369,828,436	40.32
Total	917,288,049	100.00	917,288,049	100.00

10. INFORMATION ON WULING AND WULING INDUSTRIAL

Wuling is a wholly state-owned limited company established in the PRC with the State-owned Assets Supervision and Administration Commission of the People's Government of Guangxi Zhuang Autonomous Region (廣西壯族自治區人民政府國有資產監督管理委員會) being the registered shareholder empowered by the People's Government of Guangxi Zhuang Autonomous Region (廣西壯族自治區人民政府). The Wuling Group (currently including the Wuling Industrial Group) is principally engaged in the manufacturing of motor vehicle engines, parts and special mini-vehicles. To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, Wuling and its ultimate beneficial owner are third parties independent of the Group and its connected persons.

Wuling Industrial is a state-owned limited company established in the PRC and is currently a wholly-owned subsidiary of Wuling. Wuling Industrial was established on 30 October 2006 and has become the holding company of Wuling Liuji Motors, Wuling Motors United Development and Wuling Specialised Vehicles, as well as their subsidiaries, pursuant to the re-organisation of the Wuling Group. The Wuling Industrial Group is principally engaged in the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business.

The following diagram illustrates the group structure of Wuling and its principal subsidiaries as at the Latest Practicable Date:



10.1 Management discussion and analysis of the performance and financial position of the Wuling Industrial Group

The Accountants' Report on the Wuling Industrial Group has been set out in Appendix II to this circular. Set out below is a summary of the audited consolidated financial results of the Wuling Industrial Group for each of the three years ended 31 December 2004, 2005 and 2006 extracted from the Accountants' Report on the Wuling Industrial Group:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,739,804	4,120,511	5,758,219
Profit before taxation	140,755	152,496	323,538
Profit attributable to equity holder of Wuling Industrial	115,554	129,843	267,761

As at 31 December 2006, the audited consolidated net asset value of the Wuling Industrial Group was approximately RMB853.68 million, which has not taken into account any dividend that may be declared by Wuling Industrial to Wuling before the JV Set-up Date (in any event, the consolidated net asset value of the Wuling Industrial Group after declaration of such dividend (if any) shall not be less than RMB376 million).

10.1.1 ***Business review***

The Wuling Industrial Group's business and operation has been divided into three segments, being (i) manufacture and sale of automotive accessories, (ii) manufacture and sale of motor vehicles, and (iii) manufacture and sale of engines and parts. The table below sets forth a breakdown of the turnover of the Wuling Industrial Group for each of the financial years indicated:

Turnover (excluding inter-segment sales)	**For the year ended 31 December**					
	2004		**2005**		**2006**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Automotive accessories	1,088,355	39.72	1,573,091	38.18	2,246,608	39.02
Motor vehicles	48,433	1.77	384,567	9.33	655,520	11.38
Engines and parts	1,603,016	58.51	2,162,853	52.49	2,856,091	49.60
Total	2,739,804	100.00	4,120,511	100.00	5,758,219	100.00

The turnover of the Wuling Industrial Group is substantially derived from the PRC.

The turnover of the Wuling Industrial Group for the year ended 31 December 2005 increased by approximately 50.39% to RMB4,120.51 million as compared to the year ended 31 December 2004. Such increase in turnover was mainly attributable to the strong demand on the mini-vehicles and other products produced by the Wuling Industrial Group. Notwithstanding the increase in its turnover by approximately 50.39% in 2005, the profit attributable to the equity holder of Wuling Industrial increased at a relatively low rate of approximately 12.37% during the year ended 31 December 2005, to approximately RMB129.84 million, mainly as results of increases in cost of sales (among other matters, the increase in cost of raw materials, in particular the steel) and administrative expenses at the respective rates of approximately 54.89% and 32.93%.

For the year ended 31 December 2006, the Wuling Industrial Group's revenue further increased by approximately 39.75% to RMB5,758.22 million, mainly attributable to continued strong demand for mini-vehicles and the relevant accessories and parts following the continuous growth of economy in the PRC. In addition, the profit attributable to the equity holder of Wuling Industrial increased sharply by approximately 106.22% and reached approximately RMB267.76 million in 2006, mainly attributable to the relatively mild increase in cost of sales at the rate of approximately 37.21%.

10.1.2 ***Financial position***

(a) *Current fund and financial resources*

As at 31 December 2004, 2005 and 2006, the bank balances and cash of the Wuling Industrial Group amounted to approximately RMB245.94 million, RMB291.92 million and RMB179.77 million respectively. The decrease in the bank balances and cash in 2006 was mainly caused by the net cash used in investing activities of RMB337.87 million in total and the net cash used in operating activities of approximately RMB161.98 million in total.

The current ratios (calculated on the basis of current assets over current liabilities) were approximately 1.21, 1.15 and 1.19 respectively as at 31 December 2004, 2005 and 2006.

(b) *Bank loans and gearing ratio*

As at 31 December 2004, 2005 and 2006, (i) the secured and unsecured bank borrowings of the Wuling Industrial Group were approximately RMB163.04 million, RMB39.86 million and RMB304.49 million respectively; (ii) the current portion of the bank borrowings (being those bank borrowings due within one year) represented approximately 87.53%, 66.24% and 96.99% of the total bank borrowings respectively. All such bank borrowings of the Wuling Industrial Group were denominated in RMB except that bank loans of approximately RMB13.74 million, RMB10.46 million and RMB9.17 million as at 31 December 2004, 2005 and 2006 respectively were denominated in Euro. The average interest rates of the Wuling Industrial Group's bank borrowings were approximately 5.13%, 5.24% and 5.31% during the years ended 31 December 2004, 2005 and 2006 respectively.

The Wuling Industrial Group's gearing ratio (calculated based on the total borrowings over total equity attributable to equity holder of Wuling Industrial) was approximately 25.73% as at 31 December 2004, approximately 5.43% as at 31 December 2005 and approximately 36.37% as at 31 December 2006.

(c) *Foreign currency risk*

The Wuling Industrial Group is exposed to foreign currency risks as certain of its bank borrowings are dominated in foreign currencies. The Wuling Industrial Group currently does not have a foreign currency hedging policy. However, its management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(d) *Capital commitments and contingent liabilities*

As at 31 December 2004, 2005 and 2006, the capital commitments of the Wuling Industrial Group amounted to approximately RMB101.17 million, RMB30.14 million and RMB42.31 million respectively. Such capital commitments referred to capital expenditure contracted for but not provided in the consolidated financial statements of the Wuling Industrial Group in respect of acquisition of property, plant and equipment.

The Wuling Industrial Group had no contingent liabilities as at 31 December 2004, 2005 and 2006.

(e) *Employees and remuneration policies*

As at 31 December 2004, 31 December 2005 and 31 December 2006, Wuling Industrial Group had approximately 6,500, 5,600 and 6,000 employees in the PRC respectively. The remuneration was determined by reference to statutory minimum wages, market terms, performance, number of years of service, qualification and experience of individual employees.

(f) *Material acquisition and disposals of subsidiaries and associated companies*

During the year ended 31 December 2004, the Wuling Industrial Group disposed of its 40% equity interest in a then associated company to its other equity holder.

During the year ended 31 December 2005, the Wuling Industrial Group acquired 30% equity interest in an associated company established in the PRC.

11. LISTING RULES IMPLICATION

The subscription for 51% of the Enlarged Registered Capital of Wuling Industrial by the Company at the Subscription Money of RMB391 million (equivalent to approximately HK$394.95 million) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Moreover, Wuling has conditionally agreed to acquire the Sale Shares, which represent approximately 29.05% of the total number of issued Shares as at the Latest Practicable Date, by itself (or by its wholly-owned subsidiary(ies)) pursuant to the Share Sale Agreement. Accordingly, Wuling will become a substantial Shareholder upon the Share Sale Completion Date. In addition, upon the JV Set-up Date, Wuling will become a substantial shareholder of the Joint Venture, which will be a subsidiary of the Company at that time, Wuling will therefore be regarded as a connected person of the Company pursuant to the Listing Rules. Accordingly, the execution of the JV Agreements among the Company, Wuling and Wuling Industrial and the set up of the Joint Venture pursuant thereto constitute connected transactions for the Company under Chapter 14A of the Listing Rules, which require the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. In addition, as Wuling and the Joint Venture will become a substantial Shareholder and a subsidiary of the Company respectively upon completion of the Proposed Transactions, the Proposed Continuing Connected Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules upon execution of the Continuing Connected Transaction Agreements on the JV Set-up Date. The Proposed Continuing Connected Transactions also require the approval of the Independent Shareholders voting by way of a poll at a general meeting of the Company. The Stock Exchange has indicated that it reserves its right to re-visit the application of the relevant rules on reverse takeover if and when Wuling (together with its associates) becomes a controlling Shareholder (as defined in the Listing Rules).

12. CHANGE OF NAME OF THE COMPANY

In order to reflect the acquisition of the automobile business by the Group after completion of the Proposed Transactions, an ordinary resolution will be proposed at the SGM to change the Company's name from "Dragon Hill Holdings Limited" to "Dragon Hill Wuling Automobile Holdings Limited". Upon the change of name becoming effective, the Company will adopt the new Chinese name "俊山五菱汽車集團有限公司" in place of its current Chinese name "俊山集團有限公司" for identification purpose only.

The proposed change of the Company's name is conditional upon (i) the passing of the relevant ordinary resolution by the Shareholders at the SGM; (ii) completion of the Proposed Transactions; and (iii) the approval by the Registrar of Companies in Bermuda.

The proposed change of the Company's name will take effect from the date on which the new name of the Company is registered by the Registrar of Companies in Bermuda. The Company will, subject to satisfaction of the above conditions, carry out the necessary filing procedures with the Registrar of Companies in Bermuda and the Registrar of Companies in Hong Kong.

The rights of the Shareholders will not be affected as a result of the proposed change of name of the Company. Once the change of name has become effective, new share certificates of the Company will be issued under the new name of the Company and the Shares will be traded on the Stock Exchange in the new name. All existing share certificates of the Company in issue bearing "Dragon Hill Holdings Limited" or "Magnum International Holdings Limited" (being the former name of the Company) will, after the change of name, continue to be evidence of title to the same number of Shares under the new name of the Company and will remain valid for trading, settlement and registration purposes. Accordingly, there will not be any arrangement for free exchange of existing share certificates under the new name.

Further announcement(s) will be made by the Company (i) when the new name of the Company becomes effective; and (ii) on the trading arrangements (including the date on which trading under the new name of the Company on the Stock Exchange will take effect) upon the change of the Company's name becoming effective and unconditional.

13. THE SGM

The SGM will be convened to approve (i) the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder; and (ii) the change of name of the Company. The Controlling Shareholder and its associates will abstain from voting on the resolutions in respect of the JV Agreements and the Continuing Connected Transactions Agreements and the transactions contemplated thereunder at the SGM.

The Independent Board Committee comprising all of the independent non-executive Directors has been established to consider and advise the Independent Shareholders as to the fairness and reasonableness of the respective terms of the JV Agreements and the Continuing Connected Transactions Agreements. South China Capital has been appointed to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders as regards to the respective terms of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder. The appointment of South China Capital as the independent financial adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee.

A form of proxy is enclosed with this circular for use at the SGM. Whether or not you intended to be present at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to Tengis Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable and in any event not less than 48 hours before the time required for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

14. PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Bye-laws 69 of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands or by a count of votes received in the form of electronic record, unless a poll is (before or on the declaration of the result of the show of hands or count of votes as electronic records) demanded by:

(i) the chairman of such meeting; or

(ii) at least three members present in person or by proxy or by a duly authorized corporate representative for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or by proxy or by a duly authorized corporate representative and representing not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or

(iv) any member or members present in person or by proxy or by a duly authorized corporate representative and representing and holding shares conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

15. RECOMMENDATION

The Directors consider that (i) the proposed investment by the Company in Wuling Industrial is in the interests of the Group and the Shareholders as a whole; (ii) the Continuing Connected Transactions are in the interest of the Enlarged Group, which shall include Wuling Industrial Group upon Wuling Industrial has become a subsidiary of the Company, and the Shareholders as a whole; (iii) the respective terms of the JV Agreements and the Continuing Connected Transactions Agreements are fair and reasonable; and (iv) the change of the Company's name can reflect the acquisition of the automobile business by the Group after completion of the Proposed Transactions. Accordingly, the Directors recommend (a) the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder; and (b) the Shareholders to vote in favour of the ordinary resolution in respect of the change of name of the Company.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 28 to 29 of this circular and the letter from South China Capital set out on pages 30 to 47 of this circular containing their respective recommendations and advice in relation to the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder.

16. ADDITIONAL INFORMATION

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

Yours faithfully
For and on behalf of the Board of
Dragon Hill Holdings Limited
Lee Shing
Chairman

DRAGON HILL HOLDINGS LIMITED

俊山集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 305)

25 June 2007

To the Independent Shareholders

Dear Sir or Madam,

(1) Very substantial acquisition and connected transaction in relation to the proposed investment in a joint venture by the Company; and (2) Continuing connected transactions

We refer to the circular of the Company dated 25 June 2007 (the "Circular") to the Shareholders of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you on the terms of the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the Circular. South China Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation thereto. Details of the advice and recommendation of South China Capital, together with the principal factors taken into consideration by South China Capital in arriving its advice and recommendation, are set out in the letter from South China Capital on pages 30 to 47 of the Circular.

Having considered the respective terms of the proposed investment by the Company in Wuling Industrial contemplated under the JV Agreements and the Proposed Continuing Connected Transactions contemplated under the Continuing Connected Transactions Agreements, and the relevant advice and recommendation of South China Capital, we are of the view that (i) the proposed investment by the Company in Wuling Industrial is in the interests of the Group and the Shareholders as a whole, and the terms of the JV Agreements are on normal commercial terms; (ii) the Proposed Continuing Connected Transactions are in the interests of the Enlarged Group upon establishment of the Joint Venture (which shall be a subsidiary of the Company) and the Shareholders as a whole, and the terms of the Continuing Connected Transactions Agreements are entered in to in the ordinary and usual course of business of the Enlarged Group and on normal commercial terms; and (iii) the terms of the JV Agreements and the Proposed Continuing Connected Transactions (together with the annual caps in relation to the Proposed Continuing Connected Transactions), viewed as a whole, are fair and reasonable so far as the Independent Shareholders are concerned.

* *For identification only*

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee
Mr. Yu Xiumin **Mr. Zuo Duofu** **Mr. Cheng Kin Wah, Thomas**
Independent non-executive Directors

Set out below is the text of a letter received from South China Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the JV Agreements and the Continuing Connected Transactions Agreements for the purpose of inclusion in this circular.

South China Capital Limited
28/F., Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

25 June 2007

To: The independent board committee and the independent shareholders of Dragon Hill Holdings Limited

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED INVESTMENT IN A JOINT VENTURE BY THE COMPANY; (2) PROPOSED SALE OF SHARES IN THE COMPANY BY DRAGON HILL DEVELOPMENT LIMITED; AND (3) CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the JV Agreements and the Continuing Connected Transactions Agreements, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular dated 25 June 2007 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company announced on 6 March 2007 and 26 April 2007 in relation to the Previous Framework Agreement and the Revised Framework Agreement (constituting the Proposed Transactions) respectively. Pursuant to the terms of the Revised Framework Agreement, the parties entered into the Agreements (comprising the JV Agreements and the Share Sale Agreement) on 15 May 2007 regarding the final terms of the Proposed Transactions. According to the JV Agreements, the Company has conditionally agreed to invest in Wuling Industrial, which is currently a wholly state-owned enterprise established in the PRC, by converting it into a sino-foreign joint venture. The JV Agreements include the JV Capital Increase and Subscription Agreement, the JV Set-up Agreement and the JV Articles of Association. Pursuant to the JV Capital Increase and Subscription Agreement, the Company will subscribe 51% of the Enlarged Registered Capital of Wuling Industrial at the Subscription Money of RMB391 million (equivalent to approximately HK$394.95 million).

The Directors and the parties to the Agreements considered that upon Wuling Industrial becoming the Joint Venture, it will be in the parties' common interest to enhance the foundation for cooperation between the Company and Wuling by inviting Wuling to become a strategic investor of the Company. On that basis, the parties entered into the Share Sale Agreement, pursuant to which the Controlling Shareholder and Wuling have conditionally agreed to the sale of the Sale Shares by the Controlling Shareholder to Wuling (or its wholly-owned subsidiary(ies)) at the consideration of HK$0.29 per Sale Share.

Wuling and the Joint Venture will also enter into the Tenancy Agreement, the Trademark Agreement and the Patent Agreement on the JV Set-up Date in order to ensure that the business and operation of the Wuling Industrial Group will not be affected after Wuling Industrial becoming the Joint Venture.

The subscription of 51% of the Enlarged Registered Capital of Wuling Industrial by the Company at the Subscription Money of RMB391 million (equivalent to approximately HK$394.95 million) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Moreover, Wuling has conditionally agreed to acquire the Sale Shares as mentioned above and will become a substantial Shareholder upon completion of the Share Sale Agreement. In addition, it will also become a substantial shareholder of the Joint Venture on the JV Set-up Date. Wuling will therefore be considered as a connected person (as defined under the Listing Rules) of the Company. Accordingly, the execution of the JV Agreements among the Company, Wuling and Wuling Industrial and the set up of the Joint Venture pursuant thereto constitute connected transactions for the Company under Chapter 14A of the Listing Rules, which require approval of the Independent Shareholders on voting by way of a poll at a general meeting of the Company.

Furthermore, as Wuling and the Joint Venture will become a substantial Shareholder and a subsidiary of the Company respectively upon completion of the Proposed Transactions, the Proposed Continuing Connected Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules upon execution of the Continuing Connected Transaction Agreements on the JV Set-up Date. The Proposed Continuing Connected Transactions therefore require approval of the Independent Shareholders on voting by way of a poll at a general meeting of the Company.

The SGM will be convened to approve, amongst others, the JV Agreements and the Continuing Connected Transactions Agreements, together with the transactions contemplated thereunder. The Controlling Shareholder and its associates shall abstain from voting on the resolutions in respect of, amongst others, the JV Agreements and the Continuing Connected Transactions Agreements and the transactions contemplated thereunder at the SGM.

The Independent Board Committee comprising Mr. Yu Xiumin, Mr. Zuo Duofu and Mr. Cheng Kin Wah, Thomas (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the JV Agreements and the Continuing Connected Transactions Agreements are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the JV Agreements and the Continuing Connected Transactions Agreements are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve, amongst others, the JV Agreements, the Continuing Connected Transactions Agreements and the transactions contemplated thereunder at the SGM. We, South China Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Transactions and the Proposed Continuing Connected Transactions.

(A) THE JV AGREEMENTS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the set up of the Joint Venture, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for setting up the Joint Venture

Business review of the Group

The Group is principally engaged in securities dealing and margin financing, money lending and property investment.

Set out below are the audited operating results of the Group for the two years ended 31 December 2006 as extracted from the Company's annual report for the year ended 31 December 2006 (the "2006 Annual Report"):

	For the year ended 31 December 2005 *HK$*	**For the year ended 31 December 2006** *HK$*
Turnover		
— Commission and interest income from securities dealing and margin finance	4,224,393	3,068,495
— Interest income from consumer finance	825,753	1,015,616
— Gross property rental income	2,156,084	1,163,950
— Proceeds from the sale of equity investments at fair value through profit or loss	5,104,680	11,367,431
Total	**12,310,910**	**16,615,492**
Net profit/(loss) attributable to Shareholders	**(8,756,390)**	**22,065,701**

Turnover of the Group for the year ended 31 December 2006 increased by approximately 34.97% as compared to the previous year. The increase was mainly attributable to proceeds from the sale of equity investments of the Group in 2006. Commission and interest income from securities dealing and margin finance decreased by approximately 27.36% as compared to the previous year. Besides that, gross property rental income also decreased by approximately 46.02% over the same period. According to the annual reports of the Company in prior years, the Group had recorded net losses attributable to Shareholders for each of the five years ended 31 December 2005. For the year ended 31 December 2006, the Group recorded a net profit of HK$22,065,701 but such profit was mainly derived from the disposal of the Group's investment properties and the waiver of the loan advances and the related interest charged by its previous holding companies. The Directors mentioned in the 2006 Annual Report that the abolition of the minimum commission and the active participation of banks in the retail securities market created a highly competitive business environment to the Hong Kong local brokers. Under these circumstances, the Directors believed that the business environment for the Group's securities dealing and brokerage division would continue to be tough and challenging. As also stated in the 2006 Annual Report, the Group is continuously seeking other new business opportunities for its long-term strategy. The Directors believe that there is great potential in the automobile industry in the PRC and would like to explore the business opportunities with a reputable local enterprise.

Information on Wuling and Wuling Industrial

With reference to the Board Letter, Wuling is a wholly state-owned limited company established in the PRC with the State-owned Assets Supervision and Administration Commission of the People's Government of Guangxi Zhuang Autonomous Region (廣西壯族自治區人民政府國有資產監督管理委員會), being the registered shareholder empowered by the People's Government of Guangxi Zhuang Autonomous Region (廣西壯族自治區人民政府). The Wuling Group (currently including the Wuling Industrial Group) is principally engaged in the manufacturing of motor vehicle engines, parts and special mini-vehicles. From the information provided over the website of Wuling, the Wuling Group is one of the Top 500 Chinese Manufacturing Enterprises, Top 500 Chinese Large-scale Industrial Enterprises and Top 500 Chinese Informationized Enterprises, and was awarded as the National Civilized Organization in 2005.

Wuling Industrial is a state-owned limited company established in the PRC and is currently a wholly-owned subsidiary of Wuling. Wuling Industrial was established on 30 October 2006 to become the holding company of Wuling Liuji Motors, Wuling Motors United Development and Wuling Specialised Vehicles following the re-organisation of the Wuling Group. The Wuling Industrial Group is principally engaged in the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business. According to the Accountants' Report on the Wuling Industrial Group as set out in Appendix II to the Circular, the Wuling Industrial Group's audited combined profit attributable to equity holders for the year ended 31 December 2006 was amounted to approximately RMB267.76 million.

The following table summarises the audited combined financial results of the Wuling Industrial Group for each of the three years ended 31 December 2004, 2005 and 2006 as extracted from the Accountants' Report on the Wuling Industrial Group as set out in Appendix II to the Circular:

	For the year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,739,804	4,120,511	5,758,219
Profit before taxation	140,755	152,496	323,538
Profit attributable to equity holder of Wuling Industrial	115,554	129,843	267,761

As illustrated in the above table, the Wuling Industrial Group recorded a revenue of approximately RMB5,758.22 million and profit attributable to equity holders of Wuling Industrial of approximately RMB267.76 million for the year ended 31 December 2006, representing an increase of approximately 39.75% and approximately 106.22% respectively as compared to the year ended 31 December 2005.

The following table summarises the breakdown of revenue of the Wuling Industrial Group for each of the three years ended 31 December 2004, 2005 and 2006 as extracted from the Accountants' Report on the Wuling Industrial Group as set out in Appendix II to the Circular:

	For the year ended 31 December					
	2004		**2005**		**2006**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Revenue						
Automotive accessories	1,088,355	39.72	1,573,091	38.18	2,246,608	39.02
Motor vehicles	48,433	1.77	384,567	9.33	655,520	11.38
Engines and parts	1,603,016	58.51	2,162,853	52.49	2,856,091	49.60
Total	2,739,804	100.00	4,120,511	100.00	5,758,219	100.00

As illustrated in the above table, the revenue generated from the three business segments of the Wuling Industrial Group, namely automotive accessories, motor vehicles and engines and parts, for the three years ended 31 December 2006 shown a sustainable growth. For the year ended 31 December 2006, the growth of the revenue being generated from these three business segments was approximately 42.81%, 70.46% and 32.05% respectively as compared to the previous year.

Overview of the automobile industry in the PRC

The following table demonstrates the total number of motor vehicles production in the PRC from 2001 to 2005 with reference to the official data as released over the internet at http://www.stats.gov.cn of the National Bureau of Statistics of China (data for 2006 is not published yet):

Year	**Total number of motor vehicles production in the PRC** *('000 units)*	**Total number of motor vehicles in possession in the PRC** *('000 units)*
2001	2,341.70	65,260.90
2002	3,251.00	82,272.60
2003	4,443.90	94,918.30
2004	5,091.10	104,794.00
2005	5,704.90	117,550.78
% increase from 2001 to 2005	**143.62%**	**80.12%**

According to the National Bureau of Statistics of China, the total number of motor vehicles production in the PRC in 2005 reached approximately 5.70 million units, representing an increase of approximately 143.62% from 2001. The total number of motor vehicles in possession in the PRC reached approximately 117.55 million units in 2005, representing an increase of approximately 80.12% from 2001. In this regard, the Directors expect that the rising affluence of the population attributed to the continuous economic development in the PRC will continue to drive an increasing demand for automobiles. To cope with the potential expansion of automobiles possession, additional investments in traffic infrastructure has also been advocated during the eleventh five-year state plans period (十一五規劃) (2006–2010), which in turn will reinforce the growth in the automobile industry in the PRC.

In light of the growth potential of the automobile industry in the PRC, we are of the opinion that the set up of the Joint Venture would allow the Group to enter into the automobile manufacturing and related industry in the PRC and co-operate with Wuling, an experienced strategic partner in this industry. The investment in Wuling Industrial provides a business opportunity for the Company to participate in the automobile manufacturing and related industry in the PRC. Having also taken into account the unsatisfactory business performance of the Group in recent years as set out in the paragraph headed "Business review of the Group" of this letter, we concur with the view of the Directors that the entering into the JV Agreements is in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the JV Agreements

Pursuant to the JV Capital Increase and Subscription Agreement, the Company, Wuling and Wuling Industrial have conditionally agreed (i) to set up the Joint Venture by converting Wuling Industrial into a sino-foreign joint venture of the Company and Wuling; and (ii) to increase the registered capital of Wuling Industrial to RMB767 million (i.e. the Enlarged Registered Capital of Wuling Industrial), among which RMB376 million, being 49% of the Enlarged Registered Capital of Wuling Industrial, shall be contributed by Wuling by way of injection of the entire appraised net assets of Wuling Industrial (the appraised net asset value of Wuling Industrial was approximately RMB376 million as at 31 December 2006) into the Joint Venture, and RMB391 million, being 51% of the Enlarged Registered Capital of Wuling Industrial, shall be contributed by the Company by way of cash.

Basis of the Subscription Money

The Subscription Money of RMB391 million (equivalent to approximately HK$394.95 million) shall be payable by the Company in cash in two stages:

First stage:	20% of the Subscription Money will be paid within 30 days from the JV Set-up Date; and
Second stage:	the remaining 80% will be paid within two years from the JV Set-up Date.

The Company intends to finance the first stage of the Subscription Money as to 50% by the Company's internal resources and as to the remaining 50% by bank borrowings. For the second stage of the Subscription Money, the Company currently intends to finance the same by the Company's internal resources, bank borrowings and, if considered appropriate, proceeds from any future fund raising activity of the Company. As confirmed by the Company, there is no definite plan in relation thereto as at the Latest Practicable Date.

As referred to the Board Letter, the Directors confirmed that the Subscription Money was determined after arm's length negotiations between the Company and Wuling by taking into account the appraised net asset value of Wuling Industrial of approximately RMB376 million as at 31 December 2006 and the factors which are set out in the section headed "7. Reasons for the Proposed Transactions and the Proposed Continuing Connected Transactions" of the Board Letter.

With reference also to the Board Letter, the audited combined net asset value of the Wuling Industrial Group was approximately RMB853.68 million as at 31 December 2006, which has not taken into account any dividend that may be declared by Wuling Industrial to Wuling before the JV Set-up Date (the "Dividend"). In any event, the consolidated net asset value of the Wuling Industrial Group after declaration of such dividend (if any) shall not be less than RMB376 million. The Subscription Money, as just mentioned, was determined based on the appraised net asset value of Wuling Industrial of approximately RMB376 million.

In order to assess the fairness and reasonableness of the Subscription Money, we have performed a trading multiple analysis which includes the price to earnings ratio ("PER") and price to book ratio ("PBR"). We have searched for companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange which are in similar lines of business to Wuling Industrial, i.e. the manufacturing of motor vehicle engines, parts and special mini vehicle (the "Market Comparables"). To the best of our knowledge, we found 11 companies which meet these criteria. We consider that PER and PBR are appropriate means for comparison. Set out below are the PERs and PBRs of the

Market Comparables based on their respective closing prices on 15 May 2007, being the date of the JV Capital Increase and Subscription Agreement, and their respective latest published financial information with year end dates as stated below:

Company Name (Stock Code)	**Principal Business**	**Year end date**	**Approximate PER**	**Approximate PBR**
Geely Automobile Holdings Limited (175)	Manufacturing and trading of automobile parts and related automobile components, and investment holding.	2006/12/31	24.16	4.80
Denway Motors Limited (203)	Manufacture, assembly, trading and servicing of motor vehicles and manufacture and trading of motor vehicle related electrical equipment and parts in the PRC, and manufacture and trading of audio equipment in Hong Kong.	2006/12/31	11.40	2.53
Minth Group Limited (425)	Design, manufacture and sale of body structural parts, decorative parts and trim for passenger cars.	2006/12/31	27.50	6.08
Dongfeng Motor Group Company Limited (489)	Manufacturing and sales of commercial and passenger vehicles, vehicle engines and a comprehensive range of auto parts for various vehicles.	2006/12/31	17.34	2.14
Carico Holdings Limited (729)	Manufacturing and trading of automotive components, automotive telemetics and the trading of electronics components.	2006/3/31	N/A *(Note 1)*	0.84 *(Note 2)*
Brilliance China Automotive Holdings Limited (1114)	Manufacture and sale of minibuses and automotive components and sedans in the PRC.	2006/12/31	N/A *(Note 1)*	1.11
Qingling Motors Company Limited (1122)	Production and sale of Isuzu light-duty trucks, pick-up trucks, multi-purposes vehicles, heavy-duty truck, other vehicles and automobile parts and accessories.	2006/12/31	50.92	0.57
Great Wall Motor Company Limited (2333)	Manufacture and sale of automobiles, automotive parts and components.	2006/12/31	14.72	2.31
Weichai Power Company Limited (2338)	Manufacture and sale of diesel engines.	2006/12/31	20.03	4.61
Norstar Founders Group Limited (2339)	Manufacture and sale of automotive spare parts and construction decorative hardware products.	2006/3/31	9.27	1.19 *(Note 2)*
Zhejiang Shibao Company Limited (8331)	Design, manufacture and sell steering gears and related components for automobiles in China.	2006/12/31	7.57	0.68
Average			**20.32**	**2.44**
Maximum			**50.92**	**6.08**

Company Name (Stock Code)	Principal Business	Year end date	Approximate PER	Approximate PBR
Minimum			**7.57**	**0.57**
Investment in Wuling Industrial			**2.86**	**1.00**

Notes:

1. Net loss was made for the selected company during the financial year as stated in the published annual report.

2. The PBR for the selected company was calculated based on the latest published interim report.

Source: the Stock Exchange web-site (www.hkex.com.hk)

From the above table, we note that the average PER as represented by the Market Comparables is approximately 20.32 times with a range from approximately 7.57 times to approximately 50.92 times.

Given that the audited profit attributable to equity holders of Wuling Industrial for the year ended 31 December 2006 was amounted to approximately RMB267.76 million, the PER of setting up the Joint Venture is approximately 2.86 times to 51% of the audited profit attributable to equity holders of Wuling Industrial for the year ended 31 December 2006, which falls below the minimum of the PER range as represented by the Market Comparables.

We also note from the above table that the average PBR as represented by the Market Comparables is approximately 2.44 times with a range from approximately 0.57 times to approximately 6.08 times.

Given that the Enlarged Registered Capital of Wuling Industrial, being also the net asset value of Wuling Industrial immediately after completion of the JV Agreements was approximately RMB767 million, the Subscription Money is equal to 51% of the net asset value of Wuling Industrial immediately after completion of the JV Agreements. Therefore, the PBR of setting up the Joint Venture, i.e. 1 time, is below average and falls within the PBR range as represented by the Market Comparables and is near to the lower end of the PBR range of the Market Comparables.

After taking into consideration that:

(i) the PER of setting up the Joint Venture of approximately 2.86 times is below the PER range as represented by the Market Comparables;

(ii) the PBR of setting up the Joint Venture of 1 time is below average and falls within the PBR range as represented by the Market Comparables and is near to the lower end of the PBR range of the Market Comparables;

(iii) the increasing profit making ability of Wuling Industrial as proven by its historical financial results; and

(iv) the expected continuous growth of the automobile industry in the PRC which in turn will be beneficial to the future expansion of business of Wuling Industrial, we concur with the Directors that the Subscription Money is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

We have also reviewed other terms of the JV Agreements and are not aware of any terms which are uncommon to normal market practice. Based on the above, we consider that setting up the Joint Venture is on normal commercial terms and that the terms of the JV Agreements are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the JV Agreements is in the interests of the Company and the Shareholders as a whole.

(3) Financial effects of setting up the Joint Venture

Effect on net asset value

As extracted from the 2006 Annual Report, the audited consolidated net asset value of the Group was approximately HK$33.36 million as at 31 December 2006. As stated in the pro forma financial information of the Group as set out in Appendix III to the Circular, the unaudited pro forma net asset value of the Enlarged Group would be approximately HK$410.66 million upon completion of the JV Agreements, representing an increase of approximately 1,130.85%.

Effect on earnings

Upon completion of the JV Agreements, Wuling Industrial will become a non wholly-owned subsidiary of the Company. As mentioned in the section headed "2. Proposed investment by the Company in Wuling Industrial" of the Board Letter, the financial accounts of Wuling Industrial will be consolidated into those of the Group upon completion of the JV Capital Increase and Subscription Agreement and the establishment of the Joint Venture. In view of the net profit position of Wuling Industrial for the year ended 31 December 2006 and the expected future development prospects of the automobiles industry, the JV Agreements would likely to have a positive impact on the future earnings of the Enlarged Group.

Effect on gearing

According to the 2006 Annual Report, the gearing level of the Group, which is calculated as total liabilities divided by total assets, was approximately 53.05% as at 31 December 2006. As stated in the pro forma financial information of the Group as set out in Appendix III to the Circular, the unaudited pro forma total liabilities and total assets of the Enlarged Group would be approximately HK$3,491.33 million and HK$3,901.99 million respectively. Consequently, setting up of the Joint Venture would likely to increase the gearing level of the Group by approximately 68.65% to 89.48%.

Effect on working capital

As mentioned in the paragraph headed "Basis of the Subscription Money" of this letter, the Directors confirmed that the Company would pay approximately HK$39.49 million in cash for settlement of the first stage of the Subscription Money. Therefore, the working capital of the Group would be reduced by approximately HK$39.49 million. We have further enquired into and were advised by the Directors that the Group may not have sufficient internal resources to satisfy the Subscription Money. As a result, the Company intends to finance part of the Subscription Money by bank borrowings or may conduct other fund raising activities in the coming future.

Conclusion

We are aware of that the gearing level of the Group would increase after the set up of the Joint Venture. On the other hand, the working capital of the Group would inevitably be reduced due to the payment of the Subscription Money. However, as stated in the Circular, after taking into consideration the Group's internal resources, available borrowing facilities and credit facilities in an aggregate amount of not less than HK$60 million provided by the Group's bankers and/or the Company's shareholder, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements and for the next twelve months from the date of the Circular. Furthermore, as aforementioned, in the event that the Group fails to have sufficient internal resources to satisfy the Subscription Money, the Company would consider other means of fund raising. Having the above being the case, as also balanced by the increase in net asset value of the Group and the potential growth of the Group's future earnings resulting from setting up the Joint Venture, we are of the opinion that the benefits of the set up of the Joint Venture would outweigh its drawbacks and accordingly, we consider that the set up of the Joint Venture is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION ON THE JV AGREEMENTS

Having considered the above factors and reasons, we are of the opinion that the set up of the Joint Venture is on normal commercial terms and that the terms of the JV Agreements are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the JV Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the SGM to approve the JV Agreements and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

(B) THE CONTINUING CONNECTED TRANSACTIONS AGREEMENTS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Proposed Continuing Connected Transactions

As aforementioned, the Company will set up the Joint Venture for the reasons as stated in the section headed "7. Reasons for the Proposed Transactions and the Proposed Continuing Connected Transactions" of the Board Letter. In order to ensure that the business and operation of the Wuling Industrial Group will not be affected after Wuling Industrial becoming the Joint Venture, Wuling and the Joint Venture will enter into the Tenancy Agreement, the Trademark Agreement and the Patent Agreement on the JV Set-up Date. As advised by the Directors, such arrangement is necessary for the business and operation of the Enlarged Group, which shall include the Wuling Industrial Group.

(2) Principal terms of the Continuing Connected Transactions Agreements

I. *The Tenancy Agreement*

Date: To be entered into on the JV Set-up Date

Landlord:	Wuling
Tenant:	The Joint Venture
Leased Properties:	11 parcels of land and 82 buildings which are located in Liuzhou, Guangxi Province, the PRC. The total floor area of the land and buildings are approximately 623,464.40 square metres and 223,136.74 square metres respectively. The Leased Properties are currently leased by Wuling to Wuling Industrial and are used as offices and production plants of the Wuling Industrial Group and will continue to be used by the Joint Venture and its subsidiaries for such purposes under the Tenancy Agreement after the Joint Venture has become a subsidiary of the Company upon its establishment
Rental and terms:	A total of RMB2,346,000 per month payable in arrears on the last day of each calendar month for the period from the date of the Tenancy Agreement to 31 December 2009 (both dates inclusive)

Basis of the determination of the rental payable by the Joint Venture under the Tenancy Agreement and the annual caps

The below table sets out the annual caps for the rental payable by the Joint Venture under the Tenancy Agreement for the three financial years ending 31 December 2009 and their determination basis:

	Annual caps	**Basis for the caps**
From the JV Set-up Date to 31 December 2007	RMB16,422,000	The monthly rental of RMB2,346,000 under the Tenancy Agreement multiplied by the remaining number of months in 2007 from the date of the Announcement
From 1 January 2008 to 31 December 2008	RMB28,152,000	The annual rental payable under the Tenancy Agreement
From 1 January 2009 to 31 December 2009	RMB28,152,000	The annual rental payable under the Tenancy Agreement

As advised by the Directors, the rental payable pursuant to the terms of the Tenancy Agreement was determined by the parties upon arm's length negotiations based on the rentals of the properties in the vicinity to the Leased Properties and the current rental payable by Wuling Industrial.

Historical rental amount

After the establishment of Wuling Industrial in October 2006, Wuling and Wuling Industrial entered into an agreement in relation to the lease of the Leased Properties by Wuling to Wuling Industrial with effect from 1 January 2007 at the monthly rental of RMB2,346,000. During the period from 1 January 2007 to 31 May 2007, the rental payable by Wuling Industrial to Wuling under such agreement was RMB11,730,000 in aggregate.

As confirmed by the property valuer, the monthly rental of RMB2,346,000 under the Tenancy Agreement reflects a fair and reasonable market rental for such type of property in the market. In this regard, we are of the view that we have no reason to doubt the professional judgment and observation of the property valuer concerning the market condition. Moreover, we have also requested the Company to provide us with further information and supporting documents in relation to land and properties rentals in Liuzhou, Guangxi Province, the PRC and after reviewing the same, we note that the rentals of land and properties in the vicinity to the Leased Properties were ranging from approximately RMB0.67 per square metre to RMB1.19 per square metre and approximately RMB8.5 per square metre to RMB9.5 per square metre respectively. Whereas in the case of the Tenancy Agreement, we note from the calculations provided by the Company that the rental payable by the Joint Venture under the Tenancy Agreement was set based on the rentals of land and properties of approximately RMB0.7 per square metre and approximately RMB9 per square metre respectively. Accordingly, they are within the market ranges of the land and properties rentals.

After taking into consideration that:

(i) the Leased Properties are essential for the continuing business and operation of the Joint Venture and its subsidiaries;

(ii) the rental payable by the Joint Venture under the Tenancy Agreement is the same as the historical amount paid by Wuling Industrial to Wuling; and

(iii) the rental payable by the Joint Venture under the Tenancy Agreement (including both the land and properties rentals) reflects a fair and reasonable market rental for such type of property in the market and is within the market range,

we concur with the Directors that the Tenancy Agreement is in the interests of the Company and the Shareholders as a whole.

We have also reviewed the other terms of the Tenancy Agreement and are not aware of any terms which are uncommon to normal market practice. Thus, we consider that the Tenancy Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. In addition, we are also of the view that the terms of the Tenancy Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

II. *The Trademark Agreement*

Date:	To be entered into on the JV Set-up Date
Licensor:	Wuling
Licensee:	The Joint Venture
Subject of the licence:	Pursuant to the Trademark Agreement, Wuling will grant a non-exclusive licence to the Joint Venture to use the following Trademark (being registered trademarks of Wuling), including the use of the Trademark on products of the Joint Venture and the use of words "五菱" in the name of the Joint Venture:
Term of licence:	From the date of the Trademark Agreement to 31 December 2009 (both dates inclusive)
Licence fee:	A licence fee of RMB2,000,000 per year (equivalent to approximately RMB166,667 per month) shall be payable by the Joint Venture in arrears on 31 December each year during the term of the licence and will be calculated in proportion to the number of months of use of the Trademark by the Joint Venture and its subsidiaries under the Trademark Agreement

Basis of the determination of the licence fee payable by the Joint Venture under the Trademark Agreement and the annual caps

The table below sets out the annual caps for the licence fee payable by the Joint Venture under the Trademark Agreement for the three financial years ending 31 December 2009 and their determination basis:

	Annual caps	**Basis for the caps**
From the JV Set-up Date to 31 December 2007	RMB1,200,000	The licence fee under the Trademark Agreement for the remaining number of months in 2007 from the date of the Announcement
From 1 January 2008 to 31 December 2008	RMB2,000,000	The annual licence fee payable under the Trademark Agreement
From 1 January 2009 to 31 December 2009	RMB2,000,000	The annual licence fee payable under the Trademark Agreement

As advised by the Directors, the licence fee payable pursuant to the terms of the Trademark Agreement was determined by the parties upon arm's length negotiations with reference to the audited combined net profit of Wuling Industrial for the financial year ended 31 December 2006 of approximately RMB109.06 million (based on its audited accounts which were prepared in accordance with the Generally Accepted Accounting Principles of the PRC) (the annual licence fee payable under the Trademark Agreement amounting RMB2,000,000 represents approximately 1.83% thereof); and the current licence fee payable by Wuling Industrial for the use of the Trademark. We also note that the annual licence fee payable under the Trademark Agreement in the amount of RMB2,000,000 represents approximately 0.75% of the audited profit attributable to equity holders of Wuling Industrial of approximately RMB267.76 million as recorded in the Accountants' Report on the Wuling Industrial Group as set out in Appendix II to the Circular.

In addition, as further confirmed by the Directors, Wuling has not granted the licence to use the Trademark to any independent third party. Accordingly, we cannot make reference to the licence fee charged by Wuling previously in determining the fairness and reasonableness of the licence fee charged by Wuling to the Joint Venture pursuant to the Trademark Agreement. Since the Trademark is unique for Wuling and the Joint Venture, we consider that the use of market comparables to assess the licence fee is impracticable and we are unable to judge if the licence fee under the Trademark Agreement is more or less favorable than those being charged in the market. Therefore, to the best of our knowledge, the only appropriate assessment method for the licence fee under the Trademark Agreement would be by making reference to the historical licence fee payable by Wuling Industrial to Wuling during the period from 1 January 2007 to 31 May 2007.

Historical licence fee

After the establishment of Wuling Industrial in October 2006, Wuling and Wuling Industrial entered into an agreement in relation to the grant of a licence to the Wuling Industrial Group to use the Trademark with effect from 1 January 2007 at the annual licence fee of RMB2,000,000 (equivalent to approximately RMB166,667 per month). During the period from 1 January 2007 to 31 May 2007, the licence fee payable by Wuling Industrial to Wuling under such agreement was approximately RMB833,000 in aggregate.

After taking into consideration that:

(i) the Trademark is essential for the continuing business and operation of the Joint Venture and its subsidiaries;

(ii) the licence to use the Trademark has not been granted to any independent third party and the Trademark is unique for Wuling and the Joint Venture, hence, we can only use the historical licence fee payable by Wuling Industrial to Wuling during the period from 1 January 2007 to 31 May 2007, which is the same as the licence fee under the Trademark Agreement, to assess the fairness and reasonableness of the licence fee under the Trademark Agreement; and

(iii) the licence fee payable by the Joint Venture under the Trademark Agreement only represents approximately 1.83% and 0.75% of Wuling Industrial's audited combined net profit in accordance with the Generally Accepted Accounting Principles of the PRC and the audited profit attributable to equity holders of Wuling Industrial as recorded in the Accountants' Report on the Wuling Industrial Group respectively, we concur with the Directors that the Trademark Agreement is in the interests of the Company and the Shareholders as a whole.

We have also reviewed the other terms of the Trademark Agreement and are not aware of any terms which are uncommon to normal market practice. In light of this, we consider that the Trademark Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. In addition, we are also of the view that the terms of the Trademark Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

III. ***The Patent Agreement***

Date:	To be entered into on the JV Set-up Date
Licensor:	Wuling
Licensee:	The Joint Venture
Subject of the licence:	Pursuant to the Patent Agreement, Wuling will grant a non-exclusive licence to the Joint Venture to use in aggregate 158 types of patent rights and know-how of Wuling in relation to the manufacturing of motor vehicle engines, parts and special mini-vehicles, and other related business
Term of licence:	From the date of the Patent Agreement to 31 December 2009 (both dates inclusive)
Licence fee:	A licence fee of RMB1,300,000 per year (equivalent to approximately RMB108,333 per month) shall be payable by the Joint Venture in arrears on 31 December each year during the term of the licence and will be calculated in proportion to the number of months of use of the Patent by the Joint Venture and its subsidiaries under the Patent Agreement

Basis of the determination of the licence fee payable by the Joint Venture under the Patent Agreement and the annual caps

The table below sets out the annual caps for the licence fee payable by the Joint Venture under the Patent Agreement for the three financial years ending 31 December 2009 and their determination basis:

	Annual caps	**Basis for the caps**
From the JV Set-up Date to 31 December 2007	RMB800,000	The licence fee under the Patent Agreement for the remaining number of months in 2007 from the date of the Announcement
From 1 January 2008 to 31 December 2008	RMB1,300,000	The annual licence fee payable under the Patent Agreement
From 1 January 2009 to 31 December 2009	RMB1,300,000	The annual licence fee payable under the Patent Agreement

As advised by the Directors, the licence fee payable pursuant to the terms of the Patent Agreement was determined by the parties upon arm's length negotiations with reference to the audited combined net profit of Wuling Industrial for the financial year ended 31 December 2006 of approximately RMB109.06 million (based on its audited accounts which were prepared in accordance with the Generally Accepted Accounting Principles of the PRC) (the annual licence fee payable under the Patent Agreement amounting RMB1,300,000 represents approximately 1.19% thereof); and the current licence fee payable by Wuling Industrial for the use of the Patent. We also note that the annual licence fee payable under the Patent Agreement in the amount of RMB1,300,000 represents approximately 0.49% of the audited profit attributable to equity holders of Wuling Industrial of approximately RMB267.76 million as recorded in the Accountants' Report on the Wuling Industrial Group as set out in Appendix II to the Circular.

Moreover, as further confirmed by the Directors, Wuling has not granted the licence to use the Patent to any independent third party. Accordingly, we cannot make reference to the licence fee charged by Wuling previously in determining the fairness and reasonableness of the licence fee charged by Wuling to the Joint Venture pursuant to the Patent Agreement. Since the Patent is unique for Wuling and the Joint Venture, we consider that the use of market comparables to assess the licence fee is impracticable and we are unable to judge if the licence fee under the Patent Agreement is more or less favorable than those being charged in the market. Consequently, to the best of our knowledge, the only appropriate assessment method for the licence fee under the Patent Agreement would be by making reference to the historical licence fee payable by Wuling Industrial to Wuling during the period from 1 January 2007 to 31 May 2007.

Historical licence fee

After the establishment of Wuling Industrial in October 2006, Wuling and Wuling Industrial entered into an agreement in relation to the grant of a licence to the Wuling Industrial Group to use the Patent with effect from 1 January 2007 at the annual licence fee of RMB1,300,000 (equivalent to approximately RMB108,333 per month). During the period from 1 January 2007 to 31 May 2007, the licence fee payable by Wuling Industrial to Wuling under such agreement was approximately RMB542,000 in aggregate.

After taken into consideration that:

(i) the Patent is essential for the continuing business and operation of Joint Venture and its subsidiaries;

(ii) the licence to use the Patent has not been granted to any independent third party and the Patent is unique for Wuling and the Joint Venture, hence, we can only use the historical licence fee payable by Wuling Industrial to Wuling during the period from 1 January 2007 to 31 May 2007, which is the same as the licence fee under the Patent Agreement, to assess the fairness and reasonableness of the licence fee under the Patent Agreement; and

(iii) the licence payable by the Joint Venture under the Patent Agreement only represents approximately 1.19% and 0.49% of Wuling Industrial's audited combined net profit in accordance with the Generally Accepted Accounting Principles of the PRC and the audited profit attributable to equity holders of Wuling Industrial as recorded in the Accountants' Report on the Wuling Industrial Group respectively, we concur with the Directors that the Patent Agreement is in the interests of the Company and the Shareholders as a whole.

We have also reviewed the other terms of the Patent Agreement and are not aware of any terms which are uncommon to normal market practice. Given the foregoing, we consider that the Patent Agreement is on normal commercial terms and in the ordinary and usual course of business of the Company. In addition, we are also of the view that the terms of the Patent Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION ON THE CONTINUING CONNECTED TRANSACTIONS AGREEMENTS

Having considered the above factors and reasons, we are of the opinion that the Proposed Continuing Connected Transactions are on normal commercial terms and in the ordinary and usual course of business of the Company. In addition, we are also of the view that the terms of the Continuing Connected Transactions Agreements and their respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned and the entering into the Proposed Continuing Connected Transactions Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the SGM to approve the Continuing Connected Transactions Agreements and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
South China Capital Limited
Graham Lam
Director

1. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2006

Set out below is a summary of the results, assets and liabilities of the Group during the three years ended 31 December 2006 as extracted from the annual reports of the Company.

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	21,913	12,311	16,615
Profit/(Loss) before tax	(6,231)	(8,431)	22,085
Tax	(113)	(325)	(19)
Profit/(Loss) for the year attributable to equity holders of the Company	(6,344)	(8,756)	22,066
Assets and liabilities			
Total assets	80,484	75,760	71,071
Total liabilities	(125,554)	(129,587)	37,707
Net assets/(liabilities)	(45,070)	(53,827)	33,364

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited financial statements of the Group for the year ended 31 December 2006, extracted from the annual report of the Company for the year ended 31 December 2006:

(A) Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
REVENUE	5	16,615,492	12,310,910
Other income and gains	5	33,803,094	236,873
Cost of trading equity investments sold		(11,256,297)	(5,000,826)
Administrative expenses		(12,669,401)	(14,157,260)
Other operating expenses		(3,571,298)	(2,428,747)
Unrealised gains on equity investments at fair value through profit or loss, net		961,328	443,365
Changes in fair value of investment properties	14	141,126	10,630,000
(Impairment)/reversal of impairment of loans receivable and other receivables		1,500,000	(1,622,788)
Impairment of intangible assets	16	—	(2,336,028)
Finance costs	6	(3,439,343)	(6,506,291)
PROFIT/(LOSS) BEFORE TAX	7	22,084,701	(8,430,792)
Tax	10	(19,000)	(325,598)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	11	22,065,701	(8,756,390)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		*(Restated)*
Basic		HK6.80 cents	HK(4.99) cents
Diluted		HK6.77 cents	N/A

(B) Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$	2005 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	11,641,187	151,189
Investment properties	*14*	15,814,000	43,920,000
Intangible assets	*16*	875,556	827,246
Deposit for purchase of a property		192,900	—
Total non-current assets		28,523,643	44,898,435
CURRENT ASSETS			
Loans receivable	*17*	15,221,335	14,969,290
Accounts receivable	*18*	9,298,750	1,196,327
Prepayments, deposits and other receivables	*19*	1,420,845	2,405,800
Equity investments at fair value through profit or loss	*20*	2,906,702	1,910,949
Client trust bank accounts	*21*	6,092,776	2,797,641
Cash and cash equivalents	*22*	7,606,554	7,581,554
Total current assets		42,546,962	30,861,561
CURRENT LIABILITIES			
Accounts payable	*23*	14,826,064	3,643,550
Other payables and accruals	*24*	5,314,127	51,560,285
Interest-bearing bank borrowings	*25*	808,000	—
Tax payable		52,034	52,034
Total current liabilities		21,000,225	55,255,869
NET CURRENT ASSETS/(LIABILITIES)		21,546,737	(24,394,308)
TOTAL ASSETS LESS CURRENT LIABILITIES		50,070,380	20,504,127
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*25*	16,687,059	—
Amount due to the immediate holding company	*26*	—	42,999,147
Amount due to an intermediate holding company	*27*	—	30,920,000
Deferred tax liabilities	*28*	19,000	411,507
Total non-current liabilities		16,706,059	74,330,654
Net assets/(liabilities)		33,364,321	(53,826,527)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*29*	3,069,152	61,502,418
Reserves	*31(a)*	30,295,169	(115,328,945)
Total equity		33,364,321	(53,826,527)

(C) Consolidated Statement of Changes in Equity

Year ended 31 December 2006

		Attributable to equity holders of the Company							
		Issued capital	**Convertible preference shares**	**Share premium account**	**Contributed surplus**	**Fixed assets revaluation reserve**	**Other reserve**	**Accumulated losses**	**Total equity**
	Notes	*HK$*	*HK$*	*HK$*	*HK$* *note 31(a)*	*HK$*	*HK$*	*HK$*	*HK$*
At 1 January 2005		61,502,418	—	168,315,330	36,548,052	1,731,450	—	(313,167,387)	(45,070,137)
Loss for the year		—	—	—	—	—	—	(8,756,390)	(8,756,390)
At 31 December 2005 and 1 January 2006		61,502,418	—	168,315,330	36,548,052	1,731,450	—	(321,923,777)	(53,826,527)
Capital reduction	29(a)(ii)	(60,887,394)	—	—	60,887,394	—	—	—	—
Issue of convertible preference shares	29	—	48,000,170	—	—	—	—	—	48,000,170
Released upon disposal of subsidiaries		—	—	—	—	(1,731,450)	—	1,731,450	—
Rights issue	29(c)	307,512	—	9,394,494	—	—	—	—	9,702,006
Conversion of convertible preference shares	29	2,023,616	(48,000,170)	45,976,554	—	—	—	—	—
Issue of shares	29(e)	123,000	—	6,125,400	—	—	—	—	6,248,400
Share issue expenses	29	—	—	(1,225,429)	—	—	—	—	(1,225,429)
Issue of warrants	29	—	—	—	—	—	2,400,000	—	2,400,000
Profit for the year		—	—	—	—	—	—	22,065,701	22,065,701
At 31 December 2006		3,069,152	—	228,586,349*	97,435,446*	—*	2,400,000*	(298,126,626)*	33,364,321

* The consolidated reserves in the consolidated balance sheet comprise the share premium account, contributed surplus, fixed assets revaluation reserve, other reserve and accumulated losses with a net credit balance of HK$30,295,169 (2005: net debit balance of HK$115,328,945).

(D) Consolidated Cash Flow Statement
Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		22,084,701	(8,430,792)
Adjustments for:			
Finance costs	6	3,439,343	6,506,291
Interest income	7	(2,514,197)	(2,621,562)
Dividend income from listed investments	5	(22,214)	(40,884)
Gain on disposal of subsidiaries	5	(12,408,167)	—
Gain on the waiver of loan advances and related interest by former holding companies and a former fellow subsidiary	5	(20,073,702)	—
Gain on disposal of equity investments at fair value through profit or loss, net	7	(111,134)	(103,854)
Unrealised gains on equity investments at fair value through profit or loss, net		(961,328)	(443,365)
Depreciation	7	215,305	52,575
Changes in fair value of investment properties	14	(141,126)	(10,630,000)
Impairment/(reversal of impairment) of loans receivable and other receivables		(1,500,000)	1,622,788
Impairment of intangible assets		—	2,336,028
		(11,992,519)	(11,752,775)
Decrease in loans receivable		1,247,955	3,612,808
Decrease/(increase) in accounts receivable		(8,102,423)	4,040,278
Decrease/(increase) in prepayments, deposits and other receivables		540,786	(1,676,125)
Decrease in equity investments at fair value through profit or loss		76,709	56,557
Decrease/(increase) in client trust bank accounts		(3,295,135)	1,309,291
Increase/(decrease) in accounts payable		11,182,514	(1,891,360)
Increase in other payables and accruals		5,159,944	6,186,769
Cash used in operations		(5,182,169)	(114,557)
Interest received		2,514,197	2,621,562
Dividend received from listed investments		22,214	40,884
Interest paid		(3,439,343)	(6,506,291)
Net cash outflow from operating activities		(6,085,101)	(3,958,402)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(11,903,208)	(100,688)
Purchases of investment properties		(15,672,874)	—
Deposit paid for purchase of a property		(192,900)	—
Disposal of subsidiaries	32	(692,643)	—
Cash outflow from investing activities		(28,461,625)	(100,688)

	Notes	2006 HK$	2005 HK$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue	*29(c)*	9,702,006	—
Proceeds from issue of shares	*29(e)*	6,248,400	—
Share issue expenses	*29*	(1,225,429)	—
Proceeds from issue of warrants	*29*	2,400,000	—
New bank loans		17,626,000	—
Repayment of bank loans		(130,941)	—
Net cash inflow from financing activities		34,620,036	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		73,310	(4,059,090)
Cash and cash equivalents at beginning of year		7,581,554	11,668,439
Effect of foreign exchange rate changes, net		(48,310)	(27,795)
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,606,554	7,581,554
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	6,906,554	2,581,554
Non-pledged time deposits with original maturity of less than three months when acquired	*22*	700,000	5,000,000
		7,606,554	7,581,554

(E) Balance Sheet
31 December 2006

	Notes	2006 HK$	2005 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	13	91,475	—
Interests in subsidiaries	15	(32,829,317)	(22,927,276)
Total non-current assets		(32,737,842)	(22,927,276)
CURRENT ASSETS			
Prepayments and deposits	19	229,417	229,887
Cash and cash equivalents	22	2,493,325	62,010
Total current assets		2,722,742	291,897
CURRENT LIABILITIES			
Other payables and accruals	24	2,047,545	17,668,296
NET CURRENT ASSETS/(LIABILITIES)		675,197	(17,376,399)
TOTAL ASSETS LESS CURRENT LIABILITIES		(32,062,645)	(40,303,675)
NON-CURRENT LIABILITY			
Amount due to the immediate holding company	26	—	30,932,500
Net liabilities		(32,062,645)	(71,236,175)
DEFICIENCY IN ASSETS			
Issued capital	29	3,069,152	61,502,418
Reserves	31(b)	(35,131,797)	(132,738,593)
Net deficiency in assets		(32,062,645)	(71,236,175)

(F) Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

Dragon Hill Holdings Limited (formerly Magnum International Holdings Limited) is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Unit 505, 5th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- securities dealing and brokerage and provision of margin financing
- securities trading and investment holding
- money lending
- property investment

In the opinion of the directors, the parent and the ultimate holding company of the Company is Dragon Hill Development Limited, which is incorporated in Samoa.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 March 2007. This new interpretation prescribes that when the parent grants rights to equity instruments to the employees of the subsidiary, the subsidiary should account for such a scheme as an equity-settled scheme and as an equity contribution by the parent.

HKFRS 8, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and building	Over the shorter of 20 years or the remaining lease terms
Leasehold improvements	Over the shorter of the lease terms and the useful life
Furniture and fixtures	20%
Motor vehicles	25%
Computers and equipment	30%–33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. The intangible assets of the Group, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Philippines Stock Exchange, Inc., have indefinite useful lives.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non- current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either equity investments at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Equity investments at fair value through profit or loss

Equity investments at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to loans receivable and accounts receivable, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts payable, other payables, amounts due to the holding companies and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Convertible preference shares

The Group's convertible preference shares exhibit the characteristics of equity and are stated at subscription proceeds and included in shareholders' equity, net of transaction costs.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- commission income on securities dealings, on a trade date basis;

- trading in securities, on the transaction date when the relevant contract notes have been exchanged;

- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial asset;

- rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms; and

- dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Share-based payment transactions (applicable to options granted to employees on or before 7 November 2002)

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share incentive plan is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal values of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Impairment allowances on loans and receivables

The Group regularly reviews its portfolio of accounts receivable, loans receivable and other receivables to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group considers whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable balance in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and with objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs from previous calculation, the provision estimated would be changed.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers different types of services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- The securities dealing and margin finance segment provides securities dealing services in acquiring, disposing of and subscribing for securities listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and financial accommodation to facilitate the trading of these marketable securities.

- The securities investment segment includes trading in securities and holding of securities investments.

- The consumer finance segment comprises the granting of personal loans.

- The property holding segment involves in property investment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers and assets are attributed to the segments based on the location of the assets.

(a) Business segments segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Securities dealing and margin finance		Securities investment		Consumer finance		Property holding		Intersegment sales eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Segment revenue:												
Services provided to external customers	3,124,290	4,249,628	11,367,431	5,104,680	1,015,616	825,753	1,163,950	2,156,084	(55,795)	(25,235)	16,615,492	12,310,910
Other revenue	1,262,845	92,056	22,214	40,884	—	—	12,408,167	—	—	—	13,693,226	132,940
Segment revenue	4,387,135	4,341,684	11,389,645	5,145,564	1,015,616	825,753	13,572,117	2,156,084	(55,795)	(25,235)	30,308,718	12,443,850
Segment results	(2,073,348)	(8,901,151)	1,003,151	287,980	740,091	(1,021,990)	12,056,553	10,752,471	—	—	11,726,447	1,117,310
Unallocated revenue and gains											20,109,868	103,933
Unallocated expenses											(6,312,271)	(3,959,479)
Finance costs											(3,439,343)	(5,692,556)
Profit/(loss) before tax											22,084,701	(8,430,792)
Tax											(19,000)	(325,598)
Profit/(loss) for the year											22,065,701	(8,756,390)
Assets and liabilities												
Segment assets	37,547,991	28,957,750	4,736,974	2,539,878	7,059,427	17,059,240	27,607,326	45,201,183	(9,137,349)	(18,718,878)	67,814,369	75,039,173
Unallocated assets											3,256,236	720,823
Total assets											71,070,605	75,759,996
Segment liabilities	16,576,342	9,108,348	145,729	134,869	44,078,515	33,370,211	37,584,300	1,350,233	(63,276,034)	(31,644,099)	35,108,852	12,319,562
Unallocated liabilities											2,597,432	117,266,961
Total liabilities											37,706,284	129,586,523
Other segment information:												
Capital expenditure	451,602	650	—	—	—	—	27,124,480	100,038			27,576,082	100,688
Depreciation	38,641	5,135	—	—	—	—	176,664	46,364			215,305	51,499
Unrealised gains on equity investments at fair value through profit or loss, net	—	—	961,328	443,365	—	—	—	—			961,328	443,365
Impairment losses/(reversal of impairment) recognised in the income statement	(1,500,000)	797,035	—	—	—	825,753	—	—			(1,500,000)	1,622,788
Changes in fair value of investment properties	—	—	—	—	—	—	141,126	10,630,000			141,126	10,630,000
Impairment of intangible assets recognised in the income statement	—	2,336,028	—	—	—	—	—	—			—	2,336,028

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

	Hong Kong		Philippines		Eliminations		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Segment revenue:								
Services provided to external customers	16,413,447	12,310,910	202,045	—	—	—	16,615,492	12,310,910
Other revenue	12,524,026	216,614	1,205,366	20,259	—	—	13,729,392	236,873
Segment revenue	28,937,473	12,527,524	1,407,411	20,259	—	—	30,344,884	12,547,783
Other segment information:								
Segment assets	68,169,461	73,735,233	11,200,698	8,489,573	(8,299,554)	(6,464,810)	71,070,605	75,759,996
Capital expenditure	27,576,082	100,688	—	—	—	—	27,576,082	100,688

5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows: analysed as follows:

	Group	
	2006	**2005**
	HK$	*HK$*
Revenue		
Commission and interest income from securities dealing and margin finance	3,068,495	4,224,393
Interest income from consumer finance	1,015,616	825,753
Gross property rental income	1,163,950	2,156,084
Proceeds from the sale of equity investments at fair value through profit or loss	11,367,431	5,104,680
	16,615,492	12,310,910
Other income		
Dividend income from listed investments	22,214	40,884
Recovery of bad debts	976,547	—
Others	123,806	140,656
	1,122,567	181,540
Gains		
Gain on disposal of subsidiaries	12,408,167	—
Gain on the waiver of loan advances and related interest by former holding companies and a former fellow subsidiary	20,073,702	—
Foreign exchange gains, net	198,658	55,333
	32,680,527	55,333
	33,803,094	236,873

6. FINANCE COSTS

	Group 2006 HK$	2005 HK$
Interest on bank overdrafts wholly repayable within five years	1,416	12,015
Interest on bank loans wholly repayable after five years	193,311	—
Interest on amounts due to former holding companies/holding companies	3,244,616	6,494,276
	3,439,343	6,506,291

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before before tax is arrived at after charging:

	2006 HK$	2005 HK$
Auditors' remuneration	768,000	750,000
Depreciation	215,305	52,575
Employee benefits expense (including directors' remuneration — *note 8*):		
Wages, salaries and allowances	4,557,643	7,063,026
Pension scheme contributions	72,506	297,433
Termination benefits	356,710	236,721
	4,986,859	7,597,180
Minimum lease payments under operating leases in respect of land and buildings	1,712,610	1,392,886
and after crediting:		
Gross property rental income	1,163,950	2,156,084
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	(65,431)	(112,192)
Net rental income	1,098,519	2,043,892
Bank interest income	100,129	120,124
Interest income for loans receivable	2,414,068	2,501,438
	2,514,197	2,621,562
Net gain on trading of equity investments at fair value through profit or loss	1,072,462	547,219

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	**2005**
	HK$	*HK$*
Fees	1,014,014	210,000
Other emoluments:		
Salaries, allowances and benefits in kind	500,481*	2,235,320*
Fixed bonuses	—	354,815
Pension scheme contributions	11,630	84,963
	512,111	2,675,098
	1,526,125	2,885,098

* Included in the amount was termination benefits of HK$356,710 (2005: HK$106,605) for certain directors of the Company for loss of office as a director of the Company or a wholly-owned subsidiary of the Company.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	**2005**
	HK$	*HK$*
Mr. Yu Xiumin	31,500	—
Mr. Zuo Duofu	31,500	—
Mr. Cheng Kin Wah, Thomas	63,000	—
Mr. Wong Ming Shiang	15,000	30,000
Mr. Lim Eng Ho	15,000	30,000
Mr. Soo Tho Him Yip	5,014	30,000
	161,014	90,000

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Fixed bonuses	Pension scheme contributions	Total remuneration
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
2006					
Executive directors:					
Mr. Lee Shing	630,000	—	—	7,000	637,000
Ms. Liu Yaling	63,000	—	—	—	63,000
Mr. Pei Qingrong	50,000	—	—	—	50,000
Mr. Wang Shaohua	50,000	—	—	—	50,000
Mr. Lim Teong Leong	15,000	—	—	—	15,000
Mr. Tam Cheok Wing	15,000	—	—	—	15,000
Mr. Ooi Sin Heng	15,000	500,481	—	4,630	520,111
Mr. Chan Hon Ming, Alan	15,000	—	—	—	15,000
	853,000	500,481	—	11,630	1,365,111
2005					
Executive directors:					
Mr. Lim Teong Leong	30,000	—	—	—	30,000
Mr. Tam Cheok Wing	30,000	—	—	—	30,000
Mr. Ooi Sin Heng	30,000	652,236	35,000	21,000	738,236
Mr. Chan Hon Ming, Alan	30,000	1,583,084	319,815	63,963	1,996,862
	120,000	2,235,320	354,815	84,963	2,795,098

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, one of whom resigned as a director of the Company during the year but remains as an employee of the Group, details of whose remuneration in a capacity as directors are set out in note 8 above. Details of the remuneration of the resigned director since his resignation and the remaining three (2005: three) non-director, highest paid employees for the year are set out below:

	Group 2006	2005
	HK$	*HK$*
Salaries, allowances and benefits in kind	1,581,251	1,257,467
Fixed bonuses	82,610	95,180
Pension scheme contributions	59,846	57,108
	1,723,707	1,409,755

The remuneration of each of the non-director, highest paid employees fell within the band of nil to HK$1,000,000 for the two years ended 31 December 2006 and 2005.

10. TAX

No provision for Hong Kong profits tax has been made for the current and prior years as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong during the two years.

	Group	
	2006	**2005**
	HK$	*HK$*
Deferred tax — *note 28*	19,000	325,598

A reconciliation of the tax charge applicable to profit/(loss) before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2006	**2005**
	HK$	*HK$*
Profit/(loss) before tax	22,084,701	(8,430,792)
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	3,864,823	(1,475,389)
Income not subject to tax	(6,196,641)	(1,472,707)
Expenses not deductible for tax	1,601,686	1,900,298
Tax losses not recognised	972,789	1,382,057
Tax losses utilised from previous periods	(223,657)	(8,661)
Tax charge at the Group's effective rate of 0.1% (2005: 3.9%)	19,000	325,598

11. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) for the year attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss loss of HK$25,951,617 (2005: HK$6,009,873) which has been dealt dealt with in the financial statements of the Company (note 31(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, as adjusted by the rights issue, conversion of convertible preference shares, issuance of additional shares and the consolidation of shares, during the year.

The basic earnings/(loss) per share for the current year and the prior year have been adjusted to reflect the rights issue (note 29(c)) and the consolidation of shares during the year (note 29(f)).

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted loss per share amount for the year ended 31 December 2005 has not been disclosed, as the share options outstanding during the prior year had an anti-dilutive effect on the basic loss per share for the prior year.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2006	2005
	HK$	*HK$*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	22,065,701	(8,756,390)

	Number of shares	
	2006	2005
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	324,679,041	175,320,460
Effect of dilution — weighted average number of ordinary shares:		
Warrants	1,232,877	—
	325,911,918	175,320,460

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and building	Leasehold improvements	Furniture and fixtures	Motor vehicles	Computers and equipment	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
31 December 2006						
At 1 January 2006:						
Cost	—	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	—	(1,696,995)	(955,648)	(650,000)	(864,949)	(4,167,592)
Net carrying amount	—	135,702	12,769	—	2,718	151,189
At 1 January 2006, net of accumulated depreciation	—	135,702	12,769	—	2,718	151,189
Additions	10,641,843	458,870	385,669	108,000	308,826	11,903,208
Depreciation provided during the year	(133,023)	(35,178)	(9,723)	(5,200)	(32,181)	(215,305)
Disposal of subsidiaries — *note 32*	—	(176,601)	(21,304)	—	—	(197,905)
At 31 December 2006, net of accumulated depreciation	10,508,820	382,793	367,411	102,800	279,363	11,641,187
At 31 December 2006:						
Cost	10,641,843	390,010	890,513	758,000	903,852	13,584,218
Accumulated depreciation	(133,023)	(7,217)	(523,102)	(655,200)	(624,489)	(1,943,031)
Net carrying amount	10,508,820	382,793	367,411	102,800	279,363	11,641,187

	Leasehold improvements *HK$*	Furniture and fixtures *HK$*	Motor vehicles *HK$*	Computers and equipment *HK$*	Total *HK$*
31 December 2005					
At 1 January 2005:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	(1,654,701)	(950,120)	(650,000)	(860,196)	(4,115,017)
Net carrying amount	77,958	18,297	—	6,821	103,076
At 1 January 2005, net of accumulated depreciation	77,958	18,297	—	6,821	103,076
Additions	100,038	—	—	650	100,688
Depreciation provided during the year	(42,294)	(5,528)	—	(4,753)	(52,575)
At 31 December 2005, net of accumulated depreciation	135,702	12,769	—	2,718	151,189
At 31 December 2005:					
Cost	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	(1,696,995)	(955,648)	(650,000)	(864,949)	(4,167,592)
Net carrying amount	135,702	12,769	—	2,718	151,189

Company

	Leasehold improvements *HK$*	Furniture and fixtures *HK$*	Computers and equipment *HK$*	Total *HK$*
31 December 2006				
At 1 January 2006	—	—	—	—
Additions	25,000	9,776	60,153	94,929
Depreciation provided during the year	(417)	(296)	(2,741)	(3,454)
At 31 December 2006, net of accumulated depreciation	24,583	9,480	57,412	91,475
At 31 December 2006:				
Cost	25,000	9,776	60,153	94,929
Accumulated depreciation	(417)	(296)	(2,741)	(3,454)
Net carrying amount	24,583	9,480	57,412	91,475

The Group's leasehold land and building is situated in Hong Kong and is held under a long term lease.

At 31 December 2006, the leasehold land and building of the Group with a carrying amount of HK$10,508,820 (2005: Nil) was pledged to secure general banking facilities granted to the Group (note 25).

14. INVESTMENT PROPERTIES

	Group 2006 HK$	2005 HK$
Carrying amount at 1 January	43,920,000	33,290,000
Disposal of subsidiaries — *note 32*	(43,920,000)	—
Additions	15,672,874	—
Net profit from a fair value adjustment	141,126	10,630,000
Carrying amount at 31 December	15,814,000	43,920,000

The Group's investment properties are all situated in Hong Kong and are held under long term leases.

The Group's investment properties were revalued on 31 December 2006 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK$15,814,000 on an open market, existing use basis.

The investment properties are currently leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

At 31 December 2006, the investment properties of the Group with a total carrying amount of HK$15,814,000 (2005: HK$43,570,000) were pledged to secure general banking facilities granted to the Group (note 25).

Particulars of the investment properties are as follows:

Location	Approximate saleable area	Existing use	Lease term	Group interest
a. Office No. 506 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road, No. 73 Connaught Road Central, No. 61–65 Gilman Street, Central, Hong Kong	1,103 sq. ft.	Commercial	Long	100%
b. Portion B on 23rd Floor, Yardley Commercial Building, No. 3 Connaught Road West, Sheung Wan, Hong Kong	2,057 sq. ft.	Commercial	Long	100%

15. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$	Company 2005 HK$
Unlisted shares, at cost	143,919,955	143,919,955
Impairment	(135,378,190)	(135,378,190)
	8,541,765	8,541,765
Amounts due from subsidiaries	353,863,950	276,857,250
Impairment	(293,164,677)	(253,478,700)
	60,699,273	23,378,550
Amounts due to subsidiaries	(102,070,355)	(54,847,591)
	(32,829,317)	(22,927,276)

The balances with subsidiaries are unsecured, interest-free and not repayable within one year.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hilcrest Limited	British Virgin Islands/ Hong Kong	US$1	100	—	Property investment
Watary Investments Limited	British Virgin Islands/ Hong Kong	US$36,000	100	—	Investment holding
Dragon Hill Financial Services Holdings Limited (formerly Magnum Financial Services Holdings Limited)	British Virgin Islands/ Hong Kong	US$2	100	—	Investment holding
Dragon Hill Credit Limited (formerly Magnum International Finance Limited)	Hong Kong	HK$10,000,000	—	100	Money lending
Dragon Hill Financial Services Limited (formerly Magnum International Securities Limited)	Hong Kong	HK$40,000,000	—	100	Securities dealing and margin finance
Dragon Hill (HK) Limited (formerly Magnum Industries Limited)	Hong Kong	HK$10	—	100	Trading of marketable securities

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
DH Corporate Services Limited (formerly Magnum International Holdings Services Limited)	Hong Kong	HK$2	—	100	Provision of administrative services
Jenpoint Limited	Hong Kong	HK$2	—	100	Trading of marketable securities and property investment
Continuous Gain Limited*	British Virgin Islands/ Hong Kong	US$1	—	100	Property investment
Lismore Properties Limited*	British Virgin Islands/ Hong Kong	US$1	—	100	Property services and investment holding
Ongreat Properties Limited*	British Virgin Islands/ Hong Kong	US$1	—	100	Property investment
Wolston Limited*	British Virgin Islands/ Hong Kong	US$1	—	100	Property investment

* Disposed of during the year

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

16. INTANGIBLE ASSETS

Trading rights

	Group 2006 HK$	Group 2005 HK$
At beginning of year:		
Cost	8,675,042	8,476,908
Accumulated amortisation and impairment	(7,847,796)	(5,341,429)
Net carrying amount	827,246	3,135,479
Cost at beginning of year, net of accumulated amortisation and impairment	827,246	3,135,479
Impairment during the year	—	(2,336,028)
Exchange realignment	48,310	27,795
At end of year	875,556	827,246
At end of year:		
Cost	9,019,418	8,675,042
Accumulated amortisation and impairment	(8,143,862)	(7,847,796)
Net carrying amount	875,556	827,246

In the opinion of the directors, the carrying amounts of the trading rights, which are considered to have indefinite lives, approximate to their recoverable amounts which were based on their estimated realisable values with reference to the prevailing market conditions.

17. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable and a consumer finance loan receivable of HK$8,205,719 (2005: HK$8,969,290) and HK$7,015,616 (2005: HK$6,000,000), respectively.

The margin clients accounts receivable are secured by the underlying pledged securities, repayable on demand and bear interest at annual effective rates of 11% to 11.25% (2005: 8% to 11%). No aged analysis is disclosed as, in the opinion of the directors, an aged analysis is not relevant in view of the nature of the business of securities margin financing.

The consumer finance loan receivable is secured by the pledged properties situated in Hong Kong, repayable on demand and bears interest at annual effective rates of 10% to 10.25% (2005: 7% to 10%). At 31 December 2006, the open market value of the pledged properties was approximately HK$9.6 million (2005: approximately HK$9.6 million).

18. ACCOUNTS RECEIVABLE

Accounts receivable arise from the Group's securities dealing and brokerage business with settlement terms of two days after the trade date.

Details of the accounts receivable of the Group as at the balance sheet date, based on the transaction date and net of provisions, are as follows:

	Group	
	2006	**2005**
	HK$	*HK$*
Not yet due	8,982,258	1,083,493
0–30 days	316,492	112,834
	9,298,750	1,196,327

The accounts receivable are non-interest-bearing. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Prepayments	360,035	367,026	217,765	217,237
Deposits	888,302	1,170,251	11,648	12,650
Other receivables	172,508	868,523	4	—
	1,420,845	2,405,800	229,417	229,887

Other receivables are non-interest-bearing and have no fixed terms of repayment.

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	**2005**
	HK$	*HK$*
Listed equity investments, at market value:		
Hong Kong	684,480	642,640
Elsewhere	2,222,222	1,268,309
	2,906,702	1,910,949

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

21. CLIENT TRUST BANK ACCOUNTS

Client trust bank accounts represent clients' trust monies kept in the trust bank accounts of a subsidiary engaged in the securities dealing business. The application of amounts maintained in such trust bank accounts is prescribed by the Securities and Futures Ordinance. The Group has classified the clients' monies as client trust bank accounts under the current assets section of the balance sheet and recognised the corresponding accounts payable to respective clients on grounds that is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash and bank balances and time deposit, which are not restricted as to use.

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	6,906,554	2,581,554	2,493,325	62,010
Time deposit, non-pledged	700,000	5,000,000	—	—
Cash and cash equivalents	7,606,554	7,581,554	2,493,325	62,010

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. ACCOUNTS PAYABLE

Accounts payable arise from the Group's securities dealing and brokerage business with settlement terms of two days after the trade date.

Details of the accounts payable of the Group as at the balance sheet date, based on the transaction date, are as follows:

	Group	
	2006	**2005**
	HK$	*HK$*
Not yet due	8,752,427	1,013,054
0–30 days	3,581,524	424,543
Over 30 days	2,492,113	2,205,953
	14,826,064	3,643,550

Accounts payable are non-interest-bearing.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Interest payable to the immediate holding company	—	22,419,289	—	15,866,647
Interest payable to an intermediate holding company	—	24,611,255	—	—
Interest payable to a fellow subsidiary	—	246,457	—	246,457
Other payables	2,317,094	743,955	1,342,097	103,168
Accruals	2,997,033	3,539,329	705,448	1,452,024
	5,314,127	51,560,285	2,047,545	17,668,296

The interest payables to the holding companies and a fellow subsidiary were unsecured, interest-free and were fully settled during the year.

25. INTEREST-BEARING BANK BORROWINGS

Group	Effective interest rate *(%)*	Maturity	2006 *HK$*	2005 *HK$*
Current				
Current portion of long term bank loans — secured	Hong Kong prime rate minus 2.6	2007	808,000	—
Non-current				
Secured bank loans	Hong Kong prime rate minus 2.6	2008–2021	16,687,059	—
			17,495,059	—

	Group 2006 *HK$*	Group 2005 *HK$*
Analysed into:		
Bank loans repayable:		
Within one year	808,000	—
In the second year	849,450	—
In the third to fifth years, inclusive	2,827,419	—
Beyond five years	13,010,190	—
	17,495,059	—

Notes:

The Group's bank loans are secured by:

(i) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of HK$15,814,000 (note 14);

(ii) a mortgage over the Group's leasehold land and building, which had a carrying value at the balance sheet date of HK$10,508,820 (note 13); and

(iii) a personal guarantee given by a substantial shareholder of the Company at the balance sheet date.

All borrowings of the Group bear interest at floating interest rates.

The carrying amounts of the Group's bank borrowings approximate to their fair values.

26. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The amount due to the immediate holding company at the prior year end was unsecured, bore interest at annual effective rates ranging from 7% to 8% and was fully repaid during the year.

27. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to an intermediate holding company at the prior year end was unsecured, bore interest at annual effective rate of 6.50% and was fully repaid during the year.

28. DEFERRED TAX LIABILITIES

	Accelerated tax depreciation	
	2006	**2005**
	HK$	*HK$*
At 1 January	411,507	85,909
Disposal of subsidiaries — *note 32*	(411,507)	—
Deferred tax charged to the income statement during the year — *note 10*	19,000	325,598
At 31 December	19,000	411,507

The Group has tax losses arising in Hong Kong of HK$181,854,666 (2005: HK$183,353,825), subject to the agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

29. SHARE CAPITAL

	2006	**2005**
	HK$	*HK$*
Authorised:		
25,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.004 (2005: HK$0.10) each	100,000,000	100,000,000
1,521,400,000 convertible preference shares of HK$0.001 each (2005: Nil)	1,521,400	—
	101,521,400	100,000,000
Issued and fully paid:		
767,288,049 (2005: 615,024,175) ordinary shares of HK$0.004 (2005: HK$0.10) each	3,069,152	61,502,418

A summary of the movements in the Company's authorised and issued share capital, and share premium account is as follows:

		Authorised		Issued and fully paid		Share premium account
	Notes	Number of shares	Amount HK$	Number of shares	Amount HK$	Amount HK$
Ordinary shares						
At 1 January 2005, 31 December 2005 and 1 January 2006		1,000,000,000	100,000,000	615,024,175	61,502,418	168,315,330
Capital reduction	*(a)(ii)*	—	—	—	(60,887,394)	—
Subdivision of shares	*(a)(iii)*	99,000,000,000	—	—	—	—
Rights issue	*(c)*	—	—	307,512,087	307,512	9,394,494
Conversion of convertible preference shares	*(d)*	—	—	2,023,615,935	2,023,616	45,976,554
Issue of shares	*(e)*	—	—	123,000,000	123,000	6,125,400
Share consolidation	*(f)*	(75,000,000,000)	—	(2,301,864,148)	—	—
		24,000,000,000	—	152,263,874	(58,433,266)	61,496,448
Share issue expenses		—	—	—	—	(1,225,429)
At 31 December 2006		25,000,000,000	100,000,000	767,288,049	3,069,152	228,586,349
Convertible preference shares						
At 1 January 2005, 31 December 2005 and 1 January 2006		—	—	—	—	—
Issue of convertible preference shares	*(b)*	1,521,400,000	1,521,400	1,521,400,000	48,000,170	—
Conversion of convertible preference shares	*(d)*	—	—	(1,521,400,000)	(48,000,170)	—
At 31 December 2006		1,521,400,000	1,521,400	—	—	—
Total issued share capital At 31 December 2006					3,069,152	228,586,349
At 31 December 2005					61,502,418	168,315,330

Notes:

(a) Pursuant to a special resolution passed at a special general meeting of the Company on 23 May 2006, the following events took place on 19 June 2006:

(i) a reduction of the par value of each issued ordinary share of the Company from HK$0.10 to HK$0.001 by cancelling the paid-up capital to the extent of HK$0.099 on each issued ordinary share, resulting in a reduction of the Company's issued share capital from HK$61,502,418 to HK$615,024;

(ii) a transfer of the credit arising from the cancellation of the paid-up capital in the amount of HK$60,887,394 to the contributed surplus; and

(iii) a subdivision of each unissued ordinary share in the Company with the par value of HK$0.10 into 100 new unissued ordinary shares in the Company with the par value of HK$0.001 each, resulting in an increase in authorised ordinary shares from 1,000,000,000 shares to 100,000,000,000 shares.

(b) Pursuant to a special resolution passed at a special general meeting of the Company on 23 May 2006, the authorised share capital of the Company was increased by HK$1,521,400 divided into 1,521,400,000 convertible preference shares of HK$0.001 each.

(c) A rights issue of one rights share for every two existing shares held by members on the register of members on 16 August 2006 was made, at an issue price of HK$0.03155 per rights share, resulting in the issue of 307,512,087 ordinary shares of HK$0.001 each for a total cash consideration, before expenses, of HK$9,702,006.

(d) On 26 September 2006 and 11 October 2006, 1,521,400,000 convertible preference shares were converted into 1,300,000,000 and 723,615,935 ordinary shares of HK$0.001 each, respectively. Further details of the convertible preference shares are set out in the section headed "Convertible preference shares" below.

(e) On 9 November 2006, the Company allotted and issued a total of 123,000,000 ordinary shares of HK$0.001 each for cash to independent third parties at a price of HK$0.0508 per share for a total cash consideration, before expenses, of HK$6,248,400.

(f) With effective from 27 November 2006, every four shares in the issued and unissued ordinary share capital of the Company of HK$0.001 each were consolidated into one consolidated share of HK$0.004 each.

Convertible preference shares

On 20 June 2006, the Company issued 1,521,400,000 convertible preference shares (the "Convertible Preference Shares") with a nominal value of HK$48,000,170. The Convertible Preference Shares are non-voting, freely transferable and not entitled to any right of participation in the profits of the Company. Holders of the Convertible Preference Shares are not entitled to any dividend distribution whether in cash or otherwise. The Company does not have the right to redeem the outstanding shares, nor do the shareholders have the rights to sell back the shares to the Company.

The Convertible Preference Shares are convertible into the Company's ordinary shares at the conversion price, which is initially HK$0.03155 per ordinary share, subject to adjustment, of the Company at anytime immediately upon allotment and issue of the Convertible Preference Shares and until conversion of all the Convertible Preference Shares in full.

On 26 September 2006 and 11 October 2006, the conversion rights attaching to the Convertible Preference Shares were exercised in full at the conversion price of HK$0.02372 per share, as adjusted for the rights issue (note 29(c)), resulting in the issue of 1,300,000,000 and 723,615,935 ordinary shares of HK$0.001 each, respectively.

Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

Warrants

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 23 December 2006, the Company issued unlisted warrants attaching the rights to subscribe for 150,000,000 ordinary shares. Further details of the issue of the unlisted warrants are set out in the Company's circular dated 6 December 2006.

The warrants entitle the holders thereof to subscribe for 150,000,000 ordinary shares of HK$0.004 each at a subscription price of HK$0.332 per share, payable in cash and subject to adjustment, from the date of issue until the third anniversary of the date thereof. The issue price of the warrants is HK$0.016 each and the total proceeds from the issue of warrants was HK$2,400,000.

At the balance sheet date, none of the warrants had been exercised. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 150,000,000 additional ordinary shares of HK$0.004 each.

30. SHARE OPTION SCHEME

On 11 June 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(a) A summary of the share option scheme of the Group is as follows:

	The Scheme
Purpose	Provide incentives and rewards to eligible participants.
Participants	Eligible participants include: (i) any employee(s) (whether full-time or part-time employee(s), including any executive director but not any non-executive director) of the Company and its subsidiaries; (ii) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of the Group; (v) any person or entity that provides research, development or other technological support to the Group; and (vi) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	76,728,804 (2005: 61,502,417) ordinary shares, being 10% (2005: 10%) of the issued share capital.
Maximum entitlement of each participant	The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.
Period within which the securities must be taken up under an option	Subject to the discretion on issuance of board of directors.
Minimum period for which an option must be held before it can be exercised	Not applicable.
Amount payable on acceptance	HK$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable.
Basis of determining the exercise price	Determined by the directors at their discretion and shall not be lower than the highest of: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (ii) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.

The remaining life of the scheme	The scheme will be valid and effective until 7 July 2012, after which no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to 7 July 2012 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the Scheme.

(b) The following share options were outstanding under the Scheme during the year:

Name or category of participant	**At 1 January 2006**	**Granted during the year**	**Lapsed during the year**	**Cancelled during the year**	**At 31 December 2006**	**Date of grant of share options**	**Exercise period of share options**	**Exercise price of share options*** *HK$ per share*	**Price of Company's shares at grant date of options**** *HK$ per share*
Director									
Chan Hon Ming, Alan	3,000,000	—	—	(3,000,000)	—	8 July 2002	8 July 2002 to 7 July 2012	0.111	0.104
Other employees in aggregate	8,250,000	—	(4,050,000)	(4,200,000)	—	8 July 2002	8 July 2002 to 7 July 2012	0.111	0.104
	11,250,000	—	(4,050,000)	(7,200,000)	—				

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.

The share options do not confer rights on the holders to dividends or to vote at shareholders meetings.

At the balance sheet date, the Company had no options outstanding under the Scheme.

31. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in the equity on page 31 of the financial statements.

The Group's contributed surplus represents (i) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 30 October 1992, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the transfer of the credit arose from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share on 19 June 2006.

(b) Company

	Notes	**Share premium account** *HK$*	**Contributed surplus** *HK$*	**Other reserve** *HK$*	**Accumulated losses** *HK$*	**Total** *HK$*
At 1 January 2005		168,315,330	95,165,446	—	(390,209,496)	(126,728,720)
Loss for the year		—	—	—	(6,009,873)	(6,009,873)
At 31 December 2005 and 1 January 2006		168,315,330	95,165,446	—	(396,219,369)	(132,738,593)
Capital reduction	*29(a)(ii)*	—	60,887,394	—	—	60,887,394
Rights issue	*29(c)*	9,394,494	—	—	—	9,394,494
Conversion of convertible preference shares	*29(d)*	45,976,554	—	—	—	45,976,554
Issue of shares	*29(e)*	6,125,400	—	—	—	6,125,400
Share issue expenses	*29*	(1,225,429)	—	—	—	(1,225,429)
Issue of warrants	*29*	—	—	2,400,000	—	2,400,000
Loss for the year		—	—	—	(25,951,617)	(25,951,617)
At 31 December 2006		228,586,349	156,052,840	2,400,000	(422,170,986)	(35,131,797)

The Company's contributed surplus represents (i) the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation on 30 November 1992, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the transfer of the credit arising from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share, referred to in note 31(a). Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but is not presently qualified to do so.

32. DISPOSAL OF SUBSIDIARIES

On 20 June 2006, the Group disposed of its entire 100% equity interest in Lismore Properties Limited and its subsidiaries (collectively the "Lismore Group") to Magnum (Guernsey) Limited ("MGL"), who ceased to be the Group's immediate holding company on the same date, for a consideration of HK$56,366,892, resulting in a gain on disposal of HK$12,408,167. The Lismore Group was engaged in property investment immediately before the disposal.

The carrying amounts of the assets and liabilities of the Lismore Group immediately before the disposal were as follows:

	Notes	*HK$*
Net liabilities disposed of:		
Property, plant and equipment	*13*	197,905
Investment properties	*14*	43,920,000
Prepayments, deposits and other receivables		444,169
Cash and bank balances		692,643
Other payables and accruals		(884,485)
Deferred tax liabilities	*28*	(411,507)
Amounts due to the Group		(56,366,891)
		(12,408,166)
Gain on disposal of subsidiaries	*5*	12,408,167
Amounts due to the Group disposed of		56,366,891
Sale consideration		56,366,892

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(692,643)

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into a deed of settlement with Dragon Hill Development Limited ("DHDL"), MGL, Magnum Enterprise Sdn Bhd ("MESB"), a former intermediate holding company of the Group, and Magnum Investment Limited ("MIL"), a former fellow subsidiary of the Group, to settle the outstanding advances and related interest payables of HK$73,919,147 and HK$50,521,617, respectively, due by the Group to MGL, MESB and MIL at 20 June 2006 by HK$104,367,062. The payable of HK$104,367,062 was fully settled on 20 June 2006 by (i) the sale consideration of the Lismore Group of HK$56,366,892 (note 32); and (ii) the subscription proceeds of HK$48,000,170 (note 29) from the issue of convertible preference shares, resulting in a gain on the waiver of loan advances and related interest of HK$20,073,702 (note 5).

MIL ceased to be the fellow subsidiary of the Group after the change of the controlling shareholder of the Group on 20 June 2006.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the the tenants to pay security deposits.

At 31 December 2006, the Group had total future minimum lease receivable under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2006	**2005**
	HK$	*HK$*
Within one year one year	221,375	1,734,850
In the second to fifth years, inclusive	—	282,500
	221,375	2,017,350

(b) As lessee

The Group leases certain of its warehouse and residential properties under operating lease arrangements. Leases for warehouse and properties are ar negotiated for terms ranging from negotiated for terms ranging from 1 to 2 years.

At 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	266,800	1,859,190	—	1,619,085
In the second to fifth years, inclusive	37,500	—	—	—
	304,300	1,859,190	—	1,619,085

35. COMMITMENT

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitment at the balance sheet date:

	Group 2006 *HK$*	Group 2005 *HK$*
Contracted, but not provided for:		
Leasehold land and building	1,494,000	—

At the balance sheet date, the Company did not have any significant commitments.

36. RELATED PARTY TRANSACTIONS TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group 2006 *HK$*	Group 2005 *HK$*
Interest expense charged by the immediate holding company	*(i)*	1,412,584	3,008,689
Interest expense charged by an intermediate holding company	*(i)*	1,832,032	3,485,587
Waiver of loan advances and related interest by the holding companies and a fellow subsidiary	*33*	20,073,702	—
Management fee income charged to a fellow subsidiary	*(ii)*	22,950	48,600

Notes:

(i) The interest expenses were charged by MGL, the former immediate holding company of the Group, and MESB, a former intermediate holding company of the Group, during the year which arose from their respective advances to the Group. The advances were unsecured, bore interest at annual effective rates ranging from 6.5% to 8% and were fully repaid during the year.

MGL and MESB ceased to be the holding companies of the Group after the change of the controlling shareholder of the Group on 20 June 2006.

(ii) Management fee income was related to the administrative services provided to a former fellow subsidiary of the Group. The fee was charged at a monthly rate of HK$4,050 before the change of the controlling shareholder of the Group on 20 June 2006.

(b) Outstanding balances with related parties:

	Notes	Group 2006 *HK$*	Group 2005 *HK$*
Due to the immediate holding company	*(i)*	—	65,418,436
Due to an intermediate holding company	*(ii)*	—	55,531,255
Due to a fellow subsidiary	*(iii)*	—	246,457

Notes:

(i) This represented interest and loan payable to the immediate holding company, details of the terms thereof are included in notes 24 and 26, respectively. The amount was fully settled during the year.

(ii) This represented interest and loan payable to an intermediate holding company, details of the terms thereof are included in notes 24 and 27, respectively. The amount was fully settled during the year.

(iii) This represented interest payable to a fellow subsidiary, details of the terms thereof are included in note 24 to the financial statements. The amount was fully settled during the year.

(c) Compensation of key management personnel of the Group:

Details of the compensation of the Group's key management personnel are disclosed in note 8 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial resources comprise bank borrowings, and cash and bank balances. The main purpose of maintaining the financial resources is to finance the Group's operations. The Group has various other financial assets and liabilities such as loans receivable, accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial resources are interest rate risk, credit risk, capital management risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are primarily deposits with banks which are mostly short term in nature and loans receivable from margin clients and consumer finance customers which are arising from security dealing business and consumer finance business, respectively. The Group's interest-bearing financial liabilities are primarily bank borrowings with annual effective interest rate at Hong at Hong Kong dollar prime Kong dollar prime rate minus 2.6%.

Credit risk

Credit risk is the risk that a customer or counterparty in a transaction may default. The Group has properly put credit management policies in place which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and the Group's capital resources. The Group's margin clients receivable arising from the ordinary course of business of dealing in securities are secured by the underlying pledged securities while the consumer finance loan is secured by properties collateral. At the balance sheet date, the Group's 5 largest debtors accounted for 99.6% of its loans receivable. In respect of the Group's accounts receivable, they relate to a large number of diversified customers, there is no significant concentration of credit risk.

All the Group's bank balances are deposited with a number of major financial institutions.

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at the balance sheet date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet.

Capital management risk

The Group is regulated by the Securities and Futures Commission (the "SFC") and is required to comply with certain minimum capital requirements according to the rules of the SFC.

Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

Fair value

At the balance sheet date, the fair values of the Group's financial assets and liabilities were not materially different from their carrying amounts.

38. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 2 March 2007, the Company, Liuzhou Wuling Motors Company Limited ("Wuling") and DHDL entered into a framework agreement (the "Framework Agreement") in relation to the proposed investment by the Company in Liuzhou Wuling Motor Industrial Company Limited ("Wuling Industrial").

Wuling Industrial is a state-owned limited company established in the People's Republic of China ("PRC") and is currently a wholly-owned subsidiary of Wuling. Wuling Industrial and its subsidiaries, is principally engaged in the manufacturing of motor vehicle engines, parts and special mini vehicles. Pursuant to the Framework Agreement, the Company will subscribe for a 51% of the enlarged registered capital of Wuling Industrial for a consideration of approximately RMB391 million (approximately HK$395 million). The Framework Agreement is subject to the formal execution of the agreements by the Company, Wuling and DHDL and approval from relevant government authorities in Guangxi, PRC, Stock Exchange and shareholders of the Company. The Framework Agreement will be terminated and cease to have any effect if the Company, Wuling and DHDL fail to enter into the agreements within three months from the date of the Framework Agreement (or a later date to be determined by the Company, Wuling and DHDL).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2007.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP

3.1 For the year ended 31 December 2004

Financial performance and business overview

For the year ended 31 December 2004, the Group recorded a revenue of HK$21.9 million and a loss before tax of HK$6.2 million. The revenue of the Group increased by HK$13.6 million or 163.9% as compared to the year ended 31 December 2003 and this improvement was in line with the increase in the overall market transaction volume of the Hong Kong stock market in 2004.

The loss before tax for the year decreased from HK$11.5 million in 2003 to HK$6.2 million in 2004. Such reduction in loss before tax was mainly because the Group recorded unrealized profit on revaluation of the investment properties of the Group amounted to HK$6.3 million in 2004. The expenses in 2004 mainly comprise administrative and operating expenses and financial cost on borrowings.

Other income and gains amounted to HK$0.2 million in 2004. Other income and gains were mainly represented by dividend income.

Liquidity and capital structure

Total borrowings of the Group as at 31 December 2004 amounted to HK$74.5 million, of which HK$73.9 million were intercompany advances from Magnum Corporation Berhad Group in Malaysia, which was a controlling Shareholder at that time. Bank borrowings as at 31 December 2004 amounted to HK$0.6 million, which were significantly reduced when compared to the amount of HK$1.9 million as at 31 December 2003. Cash and cash equivalents as at 31 December 2004 were held in Hong Kong dollars, United States dollars and Philippines pesos and all bank borrowings were in Hong Kong dollars.

The Company's then group of holding companies, including Magnum Corporation Berhad, had agreed in writing to provide adequate financial support to the Group to enable it to operate as a going concern and not to demand for repayment of the principal amounts and the related interest payables due thereto until such time, when the Group was in a position to repay the amounts due, without impairing its liquidity position as long as the Group remained as subsidiary companies of Magnum Corporation Berhad.

The main funding of the Group was from intercompany advances. The interest rates were charged at rates lower than the interest rates charged by the banks of the Group.

The gearing ratio was calculated by dividing the long-term debts by the amount of equity. The gearing ratio as at 31 December 2004 was approximately negative 1.64.

Significant investments held

The Group held some investments in Hong Kong and Philippines listed shares. As at 31 December 2004, such investments amounted to HK$1.4 million.

Acquisitions and disposals

There was no acquisition or disposal of any subsidiaries of the Group during the year under review.

Pledge of assets

Investment properties with carrying values of HK$32.9 million were charged to banks to secure the Group's bank borrowings as mentioned above.

Foreign exchange exposure

As at 31 December 2004, the then Directors believe that the Group's exposure to fluctuations in exchange rates and currencies were minimal as the Group's main businesses and assets were geographically located in Hong Kong.

Contingent liabilities

As at 31 December 2004, there were no material contingent liabilities to the Group.

Employees

As at 31 December 2004, the Group had approximately 29 full-time employees who were all based in Hong Kong. The remuneration of employees has been reviewed annually. Staff benefits included a medical scheme, provident fund, a share option scheme and a discretionary bonus based on staff performance.

3.2 For the year ended 31 December 2005

Financial performance

For the year ended 31 December 2005, the Group recorded revenue of HK$12.3 million and a loss before tax of HK$8.4 million. The revenue of the Group decreased by HK$9.6 million as compared to the year ended 31 December 2004, of which HK$8.8 million was for the securities investment and HK$1 million was for the securities dealing and margin finance revenue.

The loss before tax for the year increased from HK$6.2 million in 2004 to HK$8.4 million in 2005. Such increase in loss before tax was mainly due to the loss arising from the impairment in value of trading right for the Stock Exchange of HK$2.3 million.

Liquidity and capital structure

Total borrowings of the Group as at 31 December 2005 amounted to HK$73.9 million, which were intercompany advances from Magnum Corporation Berhad Group in Malaysia. There was no bank borrowings as at 31 December 2005 when compared to the amount of HK$0.6 million as at 31 December 2004. Cash and cash equivalents as at 31 December 2005 were held in Hong Kong dollars, United States dollars and Philippines pesos.

The Company's then group of holding companies, including Magnum Corporation Berhad, had agreed in writing to provide adequate financial support to the Group to enable it to operate as a going concern.

The main funding of the Group was from intercompany advances. The interest rates were charged at rates lower than the interest rates charged by the banks of the Group.

The gearing ratio was calculated by dividing the long-term debts by the amount of equity. The gearing ratio as at 31 December 2005 was approximately negative 1.37.

Significant investments held

The Group held some investments in Hong Kong and the Philippines listed shares. As at 31 December 2005, such investments amounted to HK$1.9 million.

Acquisitions and disposals

There was no acquisition or disposal of any subsidiaries of the Group during the year under review.

Pledge of assets

The carrying values of investment properties as at 31 December 2005 amounted to HK$43.9 million, of which HK$43.6 million were subject to legal charges to banks. No bank facilities was utilised as at 31 December 2005.

Foreign exchange exposure

As at 31 December 2005, the then Directors believe that the Group's exposure to fluctuations in exchange rates and currencies were minimal as the Group's main businesses and assets are geographically located in Hong Kong.

Contingent liabilities

As at 31 December 2005, there were no material contingent liabilities to the Group.

Employees

As at the balance sheet date, the Group had approximately 10 full-time employees who were all based in Hong Kong. The remuneration of employees has been reviewed annually. Staff benefits included a medical scheme, provident fund, a share option scheme and a discretionary bonus based on performance.

3.3 For the year ended 31 December 2006

Financial performance

The financial position of the Group had been significantly improved in this year. During the year, the Group recorded revenue of HK$16.6 million representing an increase of 35% compared to 2005. This was mainly attributable to the increase in the securities trading activities of the Group from HK$5.1 million in 2005 to HK$11.4 million in 2006 in response to the active stock market in Hong Kong. Meanwhile, revenue from property investment declined from HK$2.2 million in 2005 to HK$1.2 million in 2006 due to the disposal of the Group's interests in Lismore Properties Limited and its respective subsidiaries (the "Lismore Group") to Magnum (Guernsey) Limited during the year. Moreover, revenue from (1) securities dealing and brokerage and margin finance; and (2) securities trading and investment continued to be the main business segments of the Group which accounted for 19% and 68% respectively of the total revenue. Geographically, revenue generated in Hong Kong accounted for nearly 99% of the total revenue for the year 2006.

Other income and gains increased to HK$33.8 million in 2006 from HK$0.24 million in 2005, which was mainly due to the disposal of the Lismore Group and the waiver of the loan advances and related interest charged by Magnum (Guernsey) Limited, Magnum Enterprise Sdn Bhd and Magnum Investment Limited during the year enabled the Group to register a gain of HK$32.5 million. As a result, the Group achieved a net profit of HK$22.1 million for the year 2006.

As at 31 December 2006, the Group's net asset value amounts to HK$33.4 million as compared to the net deficiencies of HK$53.8 million in last year. The improvement was mainly attributable to the capital reduction exercise, a number of fund raising exercises and the net profit achieved by the Group during the year.

Change in controlling Shareholder and Company Name

The controlling Shareholder was changed during the year from Magnum Corporation Berhad to Dragon Hill Development Limited upon completion of the share sale agreement between the parties on 20 June 2006. The details in relation to the change of the controlling Shareholder and the other related transactions had been disclosed in the Company's circulars dated 29 April 2006 and 22 June 2006.

As a result of the aforesaid change of the controlling shareholder, the name of the Company was changed from Magnum International Holdings Limited to Dragon Hill Holdings Limited with effect from 15 January 2007.

Liquidity and capital structure

As a result of a series of corporate restructuring and fund raising exercises carried out during the year, the liquidity position of the Group had been significantly improved. As at 31 December 2006, the Group maintained total net asset value of HK$33.4 million compared to a net deficiency position as of 31 December 2005.

The intercompany advances from Magnum Corporation Berhad, the former holding company of the Company and its subsidiaries (the "Magnum Group") had been fully settled during the year. As at 31 December 2006, the aggregate bank borrowings of the Group amounted to HK$17.5 million which were secured by the properties of the Group.

The Group's gearing ratio (borrowing to net assets) as at the end of the year was 52.4%, a significantly improved level as compared to last year.

Significant investments held

The Group holds some listed investments in Hong Kong and the Philippines. As at 31 December 2006, such investments amounted to HK$2.9 million.

Acquisitions and disposals

During the year, the Group disposed its entire interests in Lismore Properties Limited and its respective subsidiaries (the "Lismore Group") to the Magnum Group during the year.

Following the disposal of the Lismore Group as abovementioned, the Group acquired two commercial properties near the Central, which are used as the Group's office premises and for rental purposes. The acquisitions provided a cost saving effect to our operation and a steady income for our property investment division. The total value of the properties held by the Group as at 31 December 2006 amounted to HK$26.3 million.

Pledge of assets

As at 31 December 2006, the office premises and the investment properties held by the Group with an aggregate value of HK$26.3 million have been pledged to secure the bank loans.

Foreign exchange exposure

As at 31 December 2006 and save as disclosed, the Directors believe that its exposure to fluctuations in exchange rates and currencies are minimal as the Group's main businesses and assets are geographically located in Hong Kong.

Contingent liabilities

As at 31 December 2006, there were no material contingent liabilities to the Group.

Employees

As at 31 December 2006, the Group had 20 employees, including directors and senior management. The standard remuneration package of the employees include salaries, commissions (as appropriate), a medical scheme, a Company's provident fund scheme, a Company's share option scheme, a year end double pay and a discretionary bonus based on performance, in which the salaries are subject to annual revision.

The terms of the Company's share option scheme are in accordance with the Listing Rules. As at 31 December 2006, there were no options outstanding under the Company's share option scheme.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Directors believes the business environment for its securities dealing and brokerage division will continue to be tough and challenging. The abolition of the minimum commission and the active participation of the banks in the retail securities market create a highly competitive business environment to the local brokers. The Group is now undergoing a cost trimming process to ensure its competitiveness in the securities industry. Meanwhile, the satisfactory progress in resolving the long overdue accounts is expected to benefit the Group's operations, as the funds collected will be applied for the expansion programmes of securities dealing and brokerage through the provision of additional services and the broadening of its client base.

Following the disposal of the Lismore Group as abovementioned, the Group acquired two commercial properties near the Central district in Hong Kong which are used as the Group's office premises and for rental purposes. The acquisitions provided a cost saving effect to the Group's operation and a steady income for its property investment division. All the properties not occupied for own use had been rented out at the moment.

As the demand for automobiles in the PRC remains strong, the Directors are of the view that it is in the interest of the Group by entering into the car manufacturing and related industry in the PRC. Hence, through the establishment of the Joint Venture, the Directors consider that the investment in Wuling Industrial provides a business opportunity for the Company to participate in the car manufacturing related industry in the PRC, which in turn will not only diversify the business and markets of the Group, but will also help broadening the Company's revenue base and resulting in positive impact on the Company's profitability in future.

5. INDEBTEDNESS

At the close of business on 30 April 2007, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had (i) outstanding bank borrowings of approximately HK$30.2 million, comprising secured bank borrowings of approximately HK$17.2 million and unsecured bank borrowings of approximately HK$13.0 million; (ii) secured bills payable of approximately HK$1,265.2 million; and (iii) non trade payable due to related companies of approximately HK$246.9 million.

At the close of business on 30 April 2007, the outstanding borrowings of the Enlarged Group were secured by:

(i) mortgages over certain of the Enlarged Group's leasehold land and buildings and investment properties situated in Hong Kong;

(ii) certain of the Enlarged Group's bills receivable; and

(iii) personal guarantees given by a substantial shareholder of the Company.

Save as aforesaid or otherwise disclosed herein, and apart from the intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 April 2007.

6. WORKING CAPITAL

The Directors are of the opinion that after taking into consideration the Group's internal resources, available borrowing facilities and credit facilities (provided by a substantial shareholder of the Company) in an aggregate amount of not less than HK$60 million, the Group will have sufficient working capital for its present requirements and for the next twelve months from the date of this circular.

The Group's internal resources include, among others, the proceeds of HK$49.8 million received from the Company's warrant holders on 11 May 2007 following the exercise of the attached rights of the Company's warrants in full and conversion of such into 150,000,000 ordinary shares of the Company at a price of HK$0.332 per share.

The directors of Wuling Industrial are of the opinion that after taking into account the internal resources and available borrowing facilities of the Wuling Industrial Group, the Wuling Industrial Group will have sufficient working capital for its present requirements and for the next twelve months from the date of this circular.

Based on the above, the Directors are of the view that the working capital of the Enlarged Group, immediately following the completion of the Proposed Transactions, is sufficient for its present requirement and for the next twelve months commencing from the date of this circular.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 June 2007

The Directors
Dragon Hill Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Liuzhou Wuling Motors Industrial Company Limited (柳州五菱汽車工業有限公司) ("Wuling Industrial") and its subsidiaries (hereinafter collectively referred to as the "Wuling Industrial Group") for each of the three years ended 31 December 2006 (the "Relevant Periods") (the "Financial Information") for inclusion in a circular dated 25 June 2007 issued by Dragon Hill Holdings Limited (the "Company") in connection with its proposed investment of 51% interest in Wuling Industrial (the "Circular").

Wuling Industrial is a limited company established in the People's Republic of China ("PRC") on 30 October 2006 and, as at the date of this report, wholly owned by 柳州五菱汽車有限責任公司 Liuzhou Wuling Motors Company Limited ("Wuling"). Wuling is a state-owned enterprise established in the PRC. Wuling and its affiliates, other than the Wuling Industrial Group, are hereinafter referred to as the "Wuling Group".

On 1 December, 2006, Wuling underwent a restructuring of its operations, pursuant to which Wuling transferred its entire interests in the following companies (the "Relevant Business") to Wuling Industrial as part of its capital contribution thereto to the extent of RMB 139 million (the "Restructuring"):

- 柳州五菱柳機動力有限公司 Liuzhou Wuling Liuji Motors Company Limited ("Liuzhou Machine")
- 柳州五菱汽車聯合發展有限公司 Liuzhou Wuling Motors United Development Company Limited ("United Development")
- 柳州五菱專用汽車製造有限公司 Liuzhou Wuling Specialised Vehicles Manufacturing Company Limited ("Specialised Vehicles")

Prior to the Restructuring, the Relevant Business transferred certain of their assets and liabilities to Wuling at nil consideration.

As at the date of this report, Wuling Industrial has the following subsidiaries:

Name of subsidiary	Place and date of establishment	Registered and fully paid capital	Interest holdings Direct %	Indirect %	Principal activities
Liuzhou Machine	The PRC 16 June 1993	RMB100,120,000	100	—	Manufacture and sales of petrol engines and motor cycles engines
United Development	The PRC 25 December 2001	RMB100,000,000	99	0.98	Manufacture and sales of automobiles spare parts
Specialised Vehicles	The PRC 10 December 2003	RMB15,000,000	93.33	4.67	Manufacture and sales of special vehicles
無錫五菱動力機械有限責任公司	The PRC 15 July 2005	RMB6,000,000	—	51%	Manufacture and sales of accessories of motor vehicles
北京北汽發動機有限公司	The PRC 12 August 2004	RMB36,000,000	—	51%	Manufacture and sales of engines
柳州五菱柳機汽車零部件工貿公司	The PRC 10 June 2000	RMB1,000,000	—	95%	Manufacture and sales of accessories of engines
泰興市菱迪機械有限公司	The PRC 28 March 2004	RMB3,000,000	—	51%	Manufacture and sales of engines
柳州五菱汽車有限責任公司柳州機械廠無錫分公司	The PRC 25 June 2004	RMB4,800,000	—	51%	Manufacture and sales of engines

No audited financial statements for the Relevant Periods have been prepared for Wuling Industrial since its date of establishment as it has not carried on any business other than the Restructuring. For the purpose of this report, we have, however, reviewed all the relevant transactions of Wuling Industrial since its date of establishment.

The statutory financial statements of all the subsidiaries of Wuling Industrial for each of the three years ended 31 December, 2006, or from their respective dates of establishment to 31 December 2006, if shorter, were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 廣西祥浩會計師事務所有限責任公司, certified public accountants registered in the PRC.

For the purpose of this report, Wuling Industrial has also prepared consolidated financial statements for the Relevant Period in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "HKFRS Consolidated Financial Statements"). We have undertaken an independent audit on the HKFRS Consolidated Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have also examined the audited HKFRS Consolidated Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the audited HKFRS Consolidated Financial Statements, on the basis set out in note 2 of Section A below.

The HKFRS Consolidated Financial Statements are the responsibility of the directors of Wuling Industrial who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Consolidated Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Wuling Industrial as at 31 December 2006 and of the Wuling Industrial Group as at 31 December 2004, 2005 and 2006 and of the consolidated results and consolidated cash flows of the Wuling Industrial Group for each of the three years ended 31 December 2006.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	7	2,739,804	4,120,511	5,758,219
Cost of sales		(2,373,271)	(3,676,079)	(5,043,904)
Gross profit		366,533	444,432	714,315
Other income	7	17,381	34,199	40,513
Distribution costs		(31,103)	(47,442)	(113,236)
Administrative expenses		(199,093)	(264,654)	(303,543)
Loss on disposal of an associate		(8,980)	—	—
Share of result of an associate		10,691	140	617
Finance costs	8	(14,674)	(14,179)	(15,128)
Profit before taxation	9	140,755	152,496	323,538
Taxation	11	(25,193)	(21,394)	(50,385)
Profit for the year		115,562	131,102	273,153
Attributable to:				
Equity holders of Wuling Industrial		115,554	129,843	267,761
Minority interests		8	1,259	5,392
		115,562	131,102	273,153
Dividends	12(i)	28,580	—	—

CONSOLIDATED BALANCE SHEETS

		As at 31 December		
		2004	2005	2006
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	14	319,663	425,249	285,680
Prepaid lease payments	15	59,691	30,917	2,071
Interest in an associate	16	—	1,040	1,657
Available-for-sale investments	17	2,438	3,655	498
		381,792	460,861	289,906
CURRENT ASSETS				
Inventories	18	255,422	321,825	300,279
Trade and other receivables	19	1,087,604	1,531,949	2,632,741
Prepaid lease payments	15	2,164	761	49
Pledged bank deposits	20	20,183	141,848	428,175
Bank balances and cash	20	245,937	291,923	179,771
		1,611,310	2,288,306	3,541,015
CURRENT LIABILITIES				
Trade and other payables	21	1,053,967	1,888,157	2,309,868
Amount due to a related company	22	91,030	31,764	258,877
Amount due to an associate	22	—	2,171	11,073
Provision for warranty	23	10,862	16,247	38,668
Tax liabilities		37,287	28,694	54,273
Bank borrowings — due within one year	24	142,700	26,400	295,318
		1,335,846	1,993,433	2,968,077
NET CURRENT ASSETS		275,464	294,873	572,938
TOTAL ASSETS LESS CURRENT LIABILITIES		657,256	755,734	862,844
NON-CURRENT LIABILITIES				
Bank borrowings — due after one year	24	20,335	13,456	9,169
		636,921	742,278	853,675
CAPITAL AND RESERVES				
Paid-in capital	25	—	—	150,000
Reserves		633,577	734,004	687,234
Equity attributable to equity holders of Wuling Industrial		633,577	734,004	837,234
Minority interests		3,344	8,274	16,441
		636,921	742,278	853,675

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of Wuling Industrial							
	Paid-in capital	**Capital reserve**	**Special reserve**	**Statutory reserve**	**Accumulated profits**	**Sub-Total**	**Minority interests**	**Total**
	RMB'000	*RMB'000* (*Note i*)	*RMB'000* (*Note ii*)	*RMB'000* (*Note iii*)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	—	—	401,930	26,461	74,167	502,558	73	502,631
Capital injection in a subsidiary	—	—	44,045	—	—	44,045	3,263	47,308
Profit for the year	—	—	—	—	115,554	115,554	8	115,562
Transfer	—	—	—	32,057	(32,057)	—	—	—
Dividend *(note 12(i))*	—	—	—	—	(28,580)	(28,580)	—	(28,580)
At 31 December 2004	—	—	445,975	58,518	129,084	633,577	3,344	636,921
Capital injection in a subsidiary	—	—	—	—	—	—	3,671	3,671
Profit for the year	—	—	—	—	129,843	129,843	1,259	131,102
Transfer	—	—	—	23,426	(23,426)	—	—	—
Deemed distribution to Wuling *(note 12(ii))*	—	—	(29,416)	—	—	(29,416)	—	(29,416)
At 31 December 2005	—	—	416,559	81,944	235,501	734,004	8,274	742,278
Capital injection in a subsidiary	—	—	—	—	—	—	2,775	2,775
Utilisation of reserve	—	—	—	(9,114)	9,114	—	—	—
Reduction of paid up capital by a subsidiary	—	—	(145,600)	—	—	(145,600)	—	(145,600)
Capital contribution *(note 25)*	150,000	226,000	(329,951)	—	—	46,049	—	46,049
Profit for the year	—	—	—	—	267,761	267,761	5,392	273,153
Transfer	—	—	—	9,547	(9,547)	—	—	—
Deemed distribution to Wuling *(note 12(ii))*	—	—	—	—	(64,980)	(64,980)	—	(64,980)
At 31 December 2006	150,000	226,000	(58,992)	82,377	437,849	837,234	16,441	853,675

Notes:

(i) The capital reserve represents the difference between the paid-in capital and the fair value of net assets of the Relevant Business.

(ii) The special reserve represents the aggregate of the Relevant Business's paid-in capital plus capital reserves. Included in the special reserve, the aggregate paid-in capital of the Relevant Business was RMB406,263,000, RMB406,263,000 and Nil respectively as at 31 December 2004, 2005 and 2006.

(iii) According to the relevant PRC laws, the enterprises established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulation, to a general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the previous years losses, if any. The general reserve fund is non-distributable other than upon liquidation.

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before taxation	140,755	152,496	323,538
Adjustments for:			
Depreciation of property, plant and equipment	35,535	37,610	52,740
Interest expense	14,674	14,179	15,128
Loss on disposal of property, plant and equipment	21,796	1,494	16,110
Provision for warranty	10,862	15,651	38,072
Release of prepaid lease payments	2,164	761	851
Allowance for inventories	84	20,183	6,119
Bad debt recovery	(163)	—	(292)
Interest income	(3,805)	(1,556)	(8,236)
Loss on disposal of an associate	8,980	—	—
Share of result of an associate	(10,691)	(140)	(617)
Operating cash flows before movements in working capital	220,191	240,678	443,413
(Increase) decrease in inventories	(69,829)	(86,586)	15,007
Increase in trade and other receivables	(444,004)	(444,345)	(1,231,127)
Decrease in provision for warranty	(17,086)	(10,266)	(15,651)
Increase in trade and other payables	181,969	817,507	651,185
Cash (used in) generated from operations	(128,759)	516,988	(137,173)
Taxation paid	(19,826)	(29,987)	(24,806)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(148,585)	487,001	(161,979)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(115,716)	(143,321)	(69,810)
Increase in pledged bank deposits	(18,583)	(121,665)	(286,327)
Acquisition of available-for-sale investments	(1,403)	(3,060)	—
Disposal of available-for-sale investments	—	1,843	3,157
Proceeds from disposal of an associate	36,186	—	—
Proceeds from disposal of property, plant and equipment	10,399	15,314	6,877
Interest received	3,805	1,556	8,236
Acquisition of an associate	—	(900)	—
NET CASH USED IN INVESTING ACTIVITIES	(85,312)	(250,233)	(337,867)

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
FINANCING ACTIVITIES			
New bank borrowings raised	149,300	26,400	324,763
Advance from (repayment to) a related company	91,030	(59,266)	81,513
Capital contribution from Wuling	44,045	—	45,001
Capital contribution from a minority shareholder	3,263	3,671	2,775
Repayment of bank borrowings	(143,964)	(149,579)	(60,132)
Dividend paid	(28,580)	—	—
Interest paid	(14,674)	(14,179)	(15,128)
(Repayment to) advance from an associate	(3,914)	2,171	8,902
NET CASH (USED IN) FROM FINANCING ACTIVITIES	96,506	(190,782)	387,694
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(137,391)	45,986	(112,152)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	383,328	245,937	291,923
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	245,937	291,923	179,771

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Wuling Industrial is an investment holding company. Its subsidiaries are engaged in manufacturing and trading of motor vehicles and related accessories. Its production bases and sales markets are primarily located in Mainland China.

The address of the registered office and place of business of Wuling Industrial is at No. 18, Hexi Road, Liuzhou City, Guangxi, the PRC.

The financial information is presented in Renminbi, which is the same as the functional currency of Wuling Industrial.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

For the purpose of this report, all consolidated income statements, consolidated statements of changes of equity and consolidated cash flow statements are prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective date of establishment, where this is a shorter period. The consolidated balance sheets as at 31 December 2004 and 2005 present the assets and liabilities of the companies now comprising the Wuling Industrial Group as if the current group structure had been in existence at those dates.

For the preparation of the Financial Information, the Wuling Industrial Group applied Accounting Guideline 5 "Merger Accounting under Common Control Combination" issued by the HKICPA.

3. EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and Interpretations ("INTs") (hereinafter collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after either 1 January 2005, 1 December 2005 or 1 January 2006. For the purposes of preparing and presenting Financial Information for the Relevant Period, the Wuling Industrial Group has consistently adopted all the new HKFRSs.

The HKICPA has also issued the following new standards, interpretations or amendment that are not yet effective. The Wuling Industrial Group has considered these new standards, interpretations or amendment but does not expect that they will have a material impact on the results of operations and financial position of the Wuling Industrial Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[3]
HK(IFRIC) — INT 8	Scope of HKFRS 2[4]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) — INT 11	HKFRS 2 — group and treasure share transactions[7]
HK(IFRIC) — INT 12	Service concession arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and disclosure requirements of the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Wuling Industrial and its subsidiaries. Control is achieved where the Wuling Industrial has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Wuling Industrial Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Wuling Industrial Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Wuling Industrial Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Interests in associates

An associate is an entity over which the Wuling Industrial Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Wuling Industrial Group's share of the net assets of the associate, less any identified impairment loss. When the Wuling Industrial Group's share of losses of an associate equals or exceeds its interest in that associate, which includes any long-term interests that, in substance, form part of the Wuling Industrial

Group's net investment in the associate, the Wuling Industrial Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Wuling Industrial Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Wuling Industrial Group, profits and losses are eliminated to the extent of the Wuling Industrial Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts, value-added tax and other sales related taxes.

Sale of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represented the land use rights which are stated at cost less accumulated amortisation. The cost of land use rights are amortised on a straight line basis over the periods of the rights.

Impairment of assets

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

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

Inventories

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs.

Where government grants are given for the purposes of immediate financial support to the Wuling Industrial Group with no further related costs to be incurred, the grants are recognised as income when they become receivable.

Grants relating to assets are presented as a deduction from the cost of the relevant assets.

Grants related to expense items are recognised in the same period as those expenses are charged to the consolidated income statement and are reported separately as other income.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period which they are incurred.

Retirement benefits costs

The Wuling Industrial Group participates in state-managed retirement plans pursuant to which the Wuling Industrial Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. The contributions payable to the retirement plans in respect of the Relevant Periods are charged to the consolidated income statements when employees have rendered service entitling them to the contribution.

Provisions

Provisions are recognised when the Wuling Industrial Group has a present obligation as a result of a past event, and it is probable that the Wuling Industrial Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted by the respective balance sheet dates. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Wuling Industrial Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Wuling Industrial Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Wuling Industrial Group's financial assets are classified as loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Wuling Industrial Group after deducting all of its liabilities. The Wuling Industrial Group's financial liabilities are generally classified into other financial liabilities and equity instruments. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables, amount due to a related company and amount due to an associate are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Wuling Industrial are recorded at the proceeds received, net of direct issue cost.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Wuling Industrial Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are removed from the Wuling Industrial Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Wuling Industrial Group's accounting policies, management makes various estimates based on past experience, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements are disclosed below.

Allowance for trade receivables

The assessment of the impairment loss on trade receivables of the Wuling Industrial Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each customer. If the financial conditions of customers of the Wuling Industrial Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Impairment is made based on the estimation of the future cash flow discounted at the original effective rate to calculate the present value.

6. FINANCIAL INSTRUMENTS

6a. *Financial risk management objectives and policies*

The Wuling Industrial Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a related company, amount due to an associate and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Fair value interest rate risk*

The Wuling Industrial Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings for the Relevant Period. The Wuling Industrial Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(ii) *Currency risk*

Certain bank borrowings of Wuling Industrial Group are denominated in foreign currencies, which expose the Wuling Industrial Group to foreign currency risk. The Wuling Industrial Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Wuling Industrial Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the respective balance sheet date in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Wuling Industrial Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Wuling Industrial Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Wuling Industrial consider that the Wuling Industrial Group's credit risk is significantly reduced.

Other than 上海通用五菱汽車股份有限公司 ("上汽五菱") (note 19), the Wuling Industrial Group has no significant concentration of credit risk on customers. Through Wuling's participation in the management of 上汽五菱, the management of the Wuling Industrial Group closely monitors the recoverability of the receivable from 上汽五菱.

The credit risk on liquid funds is limited because the counterparties are banks in the PRC with good reputation.

6b. ***Fair value***

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

7. REVENUE

An analysis of the Wuling Industrial Group's revenue is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Sales of goods	2,739,804	4,120,511	5,758,219
Other income	17,381	34,199	40,513
	2,757,185	4,154,710	5,798,732

Details of other income are as follows:Year ended 31 December

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	1,856	4,311	2,045
Sales of materials	6,948	13,927	19,168
Interest income	3,805	1,556	8,236
Machinery rental income	2,463	1,693	1,305
Technical consultation income	—	6,405	5,735
Others	2,309	6,307	4,024
	17,381	34,199	40,513

8. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interests on:			
— borrowings wholly repayable within five years	7,924	5,287	1,773
— borrowings repayable over five years	624	589	530
— discounted bills	6,126	8,303	12,825
	14,674	14,179	15,128

9. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):			
Directors' emoluments *(note 10)*	—	—	—
Other staff costs	145,588	167,706	171,528
Retirement benefit scheme contributions, excluding directors	55,112	76,694	66,745
Total staff costs	200,700	244,400	238,273
Allowance for inventories	84	20,183	6,119
Auditors' remuneration	80	155	65
Bad debt recovery	(163)	—	(292)
Cost of inventories recognised as an expense	2,362,325	3,640,245	4,999,713
Depreciation of property, plant and equipment	35,535	37,610	52,740
Loss on disposal of property, plant and equipment	21,796	1,494	16,110
Net exchange loss (gain)	1,054	1,893	(403)
Operating lease rentals in respect of premises	—	50	653
Release of prepaid lease payments	2,164	761	851
Research and development expenses	17,690	47,259	64,695

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

No emoluments were paid or payable to any of the directors of Wuling Industrial for the Relevant Periods.

The five employees with the highest emoluments in the Wuling Industrial Group as disclosed as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	522	413	551

The emolument of the above individuals were each below HK$1,000,000 during the Relevant period.

During the Relevant Periods, no emoluments were paid by the Wuling Industrial Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Wuling Industrial Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

11. TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Tax charge represents:			
PRC enterprise income tax for current year	25,193	21,394	50,385

No provision for Hong Kong Profits Tax has been made as the Wuling Industrial Group's profit neither arose in, nor was derived from Hong Kong during the Relevant Periods.

Pursuant to the tax notice, Caishui [2001] No. 202, all the major operating subsidiaries of the Wuling Industrial Group are entitled to a preferential income tax rate of 15% because (i) they are located in the western areas of China; (ii) their main business falls into the National Key Encouraged Industry and Technology Catalogue; and (iii) their sale revenue generated from their main business totaled more than 70% of their total income.

In addition, a major subsidiary, Specialised Vehicles, as a newly established domestic company located in the designated minority autonomous regions, is entitled to exemption from income tax for each of the three years ended 31 December 2006.

The taxation for the Relevant Period can be reconciled to the profit before taxation as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	140,755	152,496	323,538
Tax at the domestic income rate of 15% *(note)*	21,113	22,874	48,530
Tax effect of share of result of an associate	(1,603)	(21)	(92)
Tax effect of expenses not deductible for tax purposes	2,092	3,259	3,377
Tax effect of income not taxable for tax purposes	(849)	(1,175)	(1,542)
Tax effect of deductible temporary differences not recognised	4,566	6,705	5,711
Effect of tax exemptions granted to Specialised Vehicles	(126)	(10,248)	(5,599)
Taxation	25,193	21,394	50,385

Note: This represents the domestic income tax rate of the jurisdiction where a substantial portion of the Wuling Industrial Group's operation is based.

At each balance sheet date, the Wuling Industrial Group has the following unrecognised deferred tax assets in relation to deductible temporary differences due to the unpredictability of future profit streams.

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Deductible temporary difference	30,440	75,140	113,213

There was no other significant unprovided deferred tax for the Relevant Period and at the respective balance sheet date.

12. DIVIDEND/DISTRIBUTIONS

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cash dividend *(note i)*	28,580	—	—
Deemed distributions *(note ii)*	—	29,416	64,980
	28,580	29,416	64,980

Notes:

(i) Cash dividend

During the Relevant Period, other than a cash dividend of RMB28,580,000 paid by United Development in 2004 to its then shareholders, no cash dividend was paid or declared by any member of the Wuling Industrial Group.

(ii) Deemed distributions

During the Relevant Period, certain members of the Wuling Industrial Group transferred certain of their assets and liabilities to Wuling at nil consideration. The carrying values of these assets and liabilities at the date of transfer were as follows:

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Assets and liabilities transferred:			
Property, plant and equipment	—	—	159,918
Prepaid lease payments	—	29,416	28,707
Inventories	—	—	420
Trade and other receivables	—	—	130,627
Trade and other payables	—	—	(254,692)
	—	29,416	64,980

For the purpose of this report, the above transfers were deemed to be distributions by the Wuling Industrial Group to Wuling.

13. SEGMENT INFORMATION

For management purposes, the Wuling Industrial Group is currently organised into the following three operating divisions. These divisions are the basis on which the Wuling Industrial Group reports its primary segment information.

— Manufacture and sale of automotive accessories

— Manufacture and sale of motor vehicles

— Manufacture and sale of engines and parts

For the year ended 31 December 2004

	Automotive accessories	Motor vehicles	Engines and parts	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover					
External sales	1,088,355	48,433	1,603,016	—	2,739,804
Inter-segment sales	156	—	40,361	(40,517)	—
Total	1,888,511	48,433	1,643,377	(40,517)	2,739,804
Inter-segment sales are charged at prevailing market prices.					
Segment results	53,150	106	118,453		171,709
Unallocated income					3,805
Unallocated expense					(21,796)
Loss on disposal of an associate	—	—	(8,980)		(8,980)
Share of result of an associate	—	—	10,691		10,691
Finance costs					(14,674)
Profit before taxation					140,755
Taxation					(25,193)
Profit for the year					115,562

	Automotive accessories *RMB'000*	Motor vehicles *RMB'000*	Engines and parts *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Other information					
Allowance for inventories	—	—	84		84
Capital additions	20,566	44,847	55,198		120,611
Depreciation of property, plant and equipment	12,795	712	22,028		35,535
Release of prepaid lease payments	756	—	1,408		2,164
Loss on disposal of property, plant and equipment	1,561	—	20,235		21,796
At 31 December 2004					
Balance sheet					
Assets					
Segment assets	799,010	55,197	870,337		1,724,544
Unallocated corporate assets					268,558
Consolidated total assets					1,993,102
Liabilities					
Segment liabilities	429,641	12,118	623,070		1,064,829
Unallocated corporate liabilities					291,352
Consolidated total liabilities					1,356,181

For the year ended 31 December 2005

	Automotive accessories *RMB'000*	Motor vehicles *RMB'000*	Engines and parts *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Turnover					
External sales	1,573,091	384,567	2,162,853	—	4,120,511
Inter-segment sales	92	520	186,834	(187,446)	—
Total	1,573,183	385,087	2,349,687	(187,446)	4,120,511
Inter-segment sales are charged at prevailing market prices.					
Segment results	58,319	25,022	80,404		163,745
Unallocated income					4,284
Unallocated expense					(1,494)
Share of result of an associate					140
Finance costs					(14,179)
Profit before taxation					152,496
Taxation					(21,394)
Profit for the year					131,102
Other information					
Allowance for inventories	4,568	—	15,615		20,183
Allowance for trade receivables	—	—	5,937		5,937
Capital additions	72,736	869	86,399		160,004
Depreciation of property, plant and equipment	14,508	3,599	19,503		37,610
Release of prepaid lease payments	756	—	5		761
Loss on disposal of property, plant and equipment	—	—	1,494		1,494

At 31 December 2005

Balance sheet

	Automotive accessories *RMB'000*	Motor vehicles *RMB'000*	Engines and parts *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Assets					
Segment assets	1,100,758	179,255	1,030,688		2,310,701
Interest in an associate					1,040
Unallocated corporate assets					437,426
Consolidated total assets					2,749,167
Liabilities					
Segment liabilities	714,105	160,775	1,029,524		1,904,404
Unallocated corporate liabilities					102,485
Consolidated total liabilities					2,006,889

For the year ended 31 December 2006

	Automotive accessories *RMB'000*	Motor vehicles *RMB'000*	Engines and parts *RMB'000*	Elimination *RMB'000*	Consolidated *RMB'000*
Turnover					
External sales	2,246,608	655,520	2,856,091	—	5,758,219
Inter-segment sales	107	—	286,569	(286,676)	—
Total	2,246,715	655,520	3,142,660	(286,676)	5,758,219
Inter-segment sales are charged at prevailing market prices.					
Segment results	96,385	17,393	232,145		345,923
Unallocated income					8,236
Unallocated expense					(16,110)
Share of result of an associate					617
Finance costs					(15,128)
Profit before taxation					323,538
Taxation					(50,385)
Profit for the year					273,153
Other information					
Capital additions	36,802	1,383	57,891		96,076
Depreciation	21,223	3,664	27,853		52,740
Release of prepaid lease payments	756	—	95		851
Loss on disposal of property, plant and equipment	468	—	15,642		16,110
Allowance for inventories	—	—	6,119		6,119
At 31 December 2006					
Balance sheet					
Assets					
Segment assets	1,810,349	222,343	1,143,735		3,176,427
Interest in an associate					1,657
Unallocated corporate assets					652,837
Consolidated assets					3,830,921
Liabilities					
Segment liabilities	1,319,600	181,857	847,079		2,348,536
Unallocated liabilities					628,710
Consolidated liabilities					2,977,246

No geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the PRC and the assets are substantially located in the PRC.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Computers	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
AT COST							
At 1 January 2004	118,394	359,178	9,028	6,110	20,896	18,266	531,872
Additions	2,139	63,244	1,276	1,327	1,561	51,064	120,611
Disposals	(3,432)	(64,856)	(49)	—	(3,636)	(5,722)	(77,695)
Transfer	2,918	7,098	751	570	610	(11,947)	—
At 31 December 2004	120,019	364,664	11,006	8,007	19,431	51,661	574,788
Additions	8,339	74,458	1,509	1,734	3,576	70,388	160,004
Disposals	(7,183)	(41,537)	(1,315)	(579)	(6,015)	(3,499)	(60,128)
Transfer	3,120	17,859	7	482	2,440	(23,908)	—
At 31 December 2005	124,295	415,444	11,207	9,644	19,432	94,642	674,664
Additions	7,945	70,849	3,134	2,353	1,466	10,329	96,076
Disposals	(6,245)	(42,111)	(509)	(5,436)	(4,289)	(18,990)	(77,580)
Transfer	—	1,287	—	—	—	(1,287)	—
Deemed distribution to Wuling	(115,248)	(88,352)	—	—	—	(29,439)	(233,039)
At 31 December 2006	10,747	357,117	13,832	6,561	16,609	55,255	460,121
DEPRECIATION AND AMORTISATION							
At 1 January 2004	(28,546)	(219,201)	(3,642)	(1,946)	(11,755)	—	(265,090)
Provided for the year	(4,126)	(25,198)	(1,493)	(2,097)	(2,621)	—	(35,535)
Eliminated on disposals	1,160	41,429	32	—	2,879	—	45,500
At 31 December 2004	(31,512)	(202,970)	(5,103)	(4,043)	(11,497)	—	(255,125)
Provided for the year	(3,990)	(28,396)	(1,694)	(1,136)	(2,394)	—	(37,610)
Eliminated on disposals	1,414	35,879	858	473	4,696	—	43,320
At 31 December 2005	(34,088)	(195,487)	(5,939)	(4,706)	(9,195)	—	(249,415)
Provided for the year	(6,074)	(40,621)	(1,999)	(1,656)	(2,390)	—	(52,740)
Eliminated on disposals	3,395	41,750	492	5,435	3,521	—	54,593
Eliminated on deemed distribution to Wuling	33,719	39,402	—	—	—	—	73,121
At 31 December 2006	(3,048)	(154,956)	(7,446)	(927)	(8,064)	—	(174,441)
CARRYING VALUES							
At 31 December 2004	88,507	161,694	5,903	3,964	7,934	51,661	319,663
At 31 December 2005	90,207	219,957	5,268	4,938	10,237	94,642	425,249
At 31 December 2006	7,699	202,161	6,386	5,634	8,545	55,255	285,680

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Buildings	20 years or shorter of the lease term of the relevant land
Plant and machinery	10%
Furniture, fixtures and equipment	15%
Computers	10% – 20%
Motor vehicles	16%

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amounts of property, plant and equipment leased out to third parties	1,258	759	748

15. PREPAID LEASE PAYMENTS

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Analysed for reporting purposes as:			
Current assets	2,164	761	49
Non-current assets	59,691	30,917	2,071
	61,855	31,678	2,120

The amounts represent upfront payments for the right to use land in the PRC for medium-term.

16. INTEREST IN AN ASSOCIATE

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost of investment in an associate			
— unlisted in the PRC	—	900	900
Share of post-acquisition profits and reserves	—	140	757
	—	1,040	1,657

As at 31 December 2005, 2006 and up to the date of report, the Wuling Industrial Group held a 30% interest in 柳州五菱物流有限公司 which is a limited company established in the PRC and is engaged in the business of logistic services.

During the year ended 31 December 2004, the Wuling Industrial Group disposed of a 40%-owned associate company to its other equity-owner. The associate company is a company established in the PRC and engaged in the business of manufacture of diesel engines.

The summarised financial information in respect of Wuling Industrial Group's associate is set out below:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	—	8,087	17,314
Total liabilities	—	(4,620)	(11,792)
	—	3,467	5,522
Share of net assets of an associate	—	1,040	1,657
Revenue	364,614	15,614	35,034
Profit for the year	26,726	467	2,057
Share of result of an associate for the year	10,691	140	617

17. AVAILABLE-FOR-SALE INVESTMENTS

These investments represent unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of Wuling Industrial are of the opinion that their fair values cannot be measured reliably.

18. INVENTORIES

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	74,156	53,079	78,418
Work in progress	39,123	43,648	39,588
Finished goods	142,143	225,098	182,273
	255,422	321,825	300,279

19. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables:			
— related party *(Note)*	663,821	1,065,190	1,462,276
— third parties	307,124	358,563	1,049,207
	970,945	1,423,753	2,511,483
Other receivables:			
Prepayments	63,254	67,462	79,755
Deposits paid	53,405	40,734	41,503
	116,659	108,196	121,258
	1,087,604	1,531,949	2,632,741

The Wuling Industrial Group generally allows an average credit period of 90 days to 120 days to its trade customers.

The aged analysis of the Wuling Industrial Group's trade receivables as at each of the balance sheet dates are as follows:

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	965,178	1,418,145	2,505,439
91 – 180 days	3,770	1,478	3,938
181 – 365 days	1,453	3,889	1,873
Over 365 days	544	241	233
	970,945	1,423,753	2,511,483

Note: The related party is 上汽五菱 in which Wuling holds 15% equity interest.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES

The pledged deposits and bank balances carried variable interest rates as follows:

	2004	**2005**	**2006**
Pledged deposits	0.72% – 2.07%	0.72% – 2.07%	0.72% – 2.25%
Other bank balances	0.72%	0.72%	0.72%

21. TRADE AND OTHER PAYABLES

The aged analysis of the Wuling Industrial Group's trade payables at each of the balance sheet dates are as follows:

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables:			
— The Wuling Group	153,339	729,116	651,466
— third parties	553,291	744,582	1,334,219
	706,630	1,473,698	1,985,685
Trade payables:			
0 – 90 days	680,305	1,452,204	1,957,741
91 – 180 days	8,344	15,941	12,214
181 – 365 days	13,342	1,586	6,095
Over 365 days	4,639	3,967	9,635
	706,630	1,473,698	1,985,685
Other payable and accruals	347,337	414,459	324,183
	1,053,967	1,888,157	2,309,868

Included in other payable and accruals, there are RMB4,895,000, RMB16,683,000 and RMB25,218,000 at 31 December 2004, 2005 and 2006 respectively for payable of acquisition of property, plant and equipment.

22. AMOUNT DUE TO A RELATED COMPANY/AMOUNT DUE TO AN ASSOCIATE

Included in the amount due to a related company at 31 December 2006 was an amount of RMB145,600,000 due to Wuling as a result of repayment of capital by a subsidiary. All amounts are unsecured, non-interest bearing and repayable on demand.

23. PROVISION FOR WARRANTY

	RMB'000
At 1 January 2004	17,086
Additional provision in the year	10,862
Utilisation of provision	(17,086)
At 31 December 2004	10,862
Additional provision in the year	15,651
Utilisation of provision	(10,266)
At 31 December 2005	16,247
Additional provision in the year	38,072
Utilisation of provision	(15,651)
At 31 December 2006	38,668

All the provisions are warranty provision and current liabilities. The warranty provision represents management's best estimate of the Group's liability under 2-years warranty granted on motor vehicles and its accessories, based on prior experience and industry averages for defective products.

24. BANK BORROWINGS

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Secured	119,300	29,400	295,318
Unsecured	43,735	10,456	9,169
	163,035	39,856	304,487
Amounts repayable:			
On demand or within one year	142,700	26,400	295,318
More than one year, but not exceeding two years	2,814	5,368	2,331
More than two years, but not exceeding three years	4,995	1,184	1,165
More than three years, but not exceeding four years	4,395	1,185	1,165
More than four years, but not exceeding five years	1,395	1,185	1,165
More than five years	6,736	4,534	3,343
	163,035	39,856	304,487
Less: Amount due within one year shown under current liabilities	(142,700)	(26,400)	(295,318)
	20,335	13,456	9,169

All of the Wuling Industrial Group's bank borrowings are denominated in RMB except that bank loans of RMB13,737,000, RMB10,456,000 and RMB9,169,000 as at 31 December 2004, 2005 and 2006 respectively were denominated in Euro.

The unsecured borrowings at 31 December 2004 and December 2005 are guaranteed by Wuling except that loans of RMB20,000,000 were guaranteed by 廣西柳州鋼鐵(集團)有限公司, an independent third party. These guarantees were released during the year ended 31 December 2006.

The average interest rates of the Wuling Industrial Group's fixed rate borrowings for the Relevant Period were as follows:

	As at 31 December		
	2004	**2005**	**2006**
	%	*%*	*%*
Bank loans	5.13	5.24	5.31

25. PAID-IN CAPITAL

	RMB'000
On 30 October 2006 (date of establishment)	11,000
Capital contribution *(Note)*	139,000
Balance at 31 December 2006	150,000

Note: Of this capital contribution, an amount of RMB103,951,000 was paid up by transfer of the Relevant Business by Wuling to Wuling Industrial.

26. CAPITAL COMMITMENTS

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	101,173	30,135	42,312

27. PLEDGE OF ASSETS

At the respective balance sheet date, the following assets were pledged to banks to secure general banking facilities granted to the Wuling Industrial Group:

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Bills receivable (included in trade receivable)	15,000	46,600	298,938
Bank deposits	20,183	141,848	428,175
	35,183	188,448	727,113

28. RETIREMENT BENEFITS PLANS

The employees employed in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Wuling Industrial Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

29. OPERATING LEASES

The Wuling Industrial Group as lessor

Machinery rental income earned during the Relevant Periods are as disclosed in note 7. All machineries held have committed lessees for the next year.

At the balance sheet date, the Wuling Industrial Group had contracted with lessees for the following future minimum lease receipts:

	As at 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,121	1,348	659
In the second to fifth year inclusive	1,026	1,180	1,044
	2,147	2,528	1,703

The Wuling Industrial Group as lessee

Minimum lease payments made under operating leases during the Relevant Periods are as disclosed in note 9.

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

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	—	403	510
In the second to fifth year inclusive	—	773	585
	—	1,176	1,095

30. RELATED PARTY DISCLOSURES

(I) *Related party transactions*

		Year ended 31 December		
		2004	**2005**	**2006**
Company	**Transactions**	*RMB'000*	*RMB'000*	*RMB'000*
上汽五菱	Sales of goods	2,372,136	3,293,868	4,836,695
	Purchases of materials	481,205	554,351	548,225
	Sales of raw materials	7,839	7,984	14,427
Wuling Group	Sales of goods	99,300	225,393	218,838
	Purchases of materials	740,834	1,054,591	1,856,912
	Transportation and other expenses paid	3,858	17,665	27,286
	Electricity and water	8,182	11,820	18,245
	Security charges	1,736	3,614	2,535
	Sales of raw materials	6,631	12,741	13,216
An associate	Sales of goods	44,745	609	—
	Purchase of goods	83,978	—	—

In addition, during the Relevant Periods, certain buildings of the Wuling Industrial Group were erected on land use right held by Wuling, free of charge.

(II) *Related party balances*

Details of the Wuling Industrial Group's outstanding balances with related parties are set out and in notes 19, 21 and 22.

(III) *Guarantees provided by Wuling*

The guarantees provided by Wuling to the Wuling Industrial Group are set out in note 24.

(IV) *Compensation of key management personnel*

The remuneration of other members of key management for the Wuling Industrial Group during the Relevant Period was disclosed same as note 10. No directors remuneration was paid or payable for any of the directors of Wuling Industrial for the Relevant Period.

31. SUBSEQUENT EVENT

On 15 May 2007, the Company has conditionally agreed to invest in Wuling Industrial by converting it into a sino-foreign joint venture pursuant to the Joint Venture Agreements ("JV Agreements"). Pursuant to the JV Agreements, the Company will subscribe 51% of the enlarged registered capital of Wuling Industrial at a consideration of RMB391 million (equivalent to approximately HK$394.95 million). This transaction is subject to, amongst other matters, approval by the Company's shareholders in a general meeting. It is intended that prior to the formation of joint venture, Wuling Industrial will make distribution to Wuling. However, after such distribution, the consolidated net asset value of the Wuling Industrial Group is not expected to be less than RMB376 million.

B. BALANCE SHEET OF WULING INDUSTRIAL

Wuling Industrial was established on 30 October 2006. Its balance sheet at 31 December 2006 is as follows:

	Notes	*RMB'000*
NON-CURRENT ASSETS		
Plant and equipment	(i)	1,048
Investments in subsidiaries	(ii)	329,951
		330,999
CURRENT ASSETS		
Bank balance		45,001
		376,000
CAPITAL		
Paid-in capital	(iii)	150,000
Capital reserve		226,000
		376,000

Notes:

(i) The plant and equipment was stated at cost.

(ii) Investments in subsidiaries are unlisted capital contributions, at cost of RMB329,951,000. Details of the subsidiaries of Wuling Industrial at 31 December 2006 are set out in introductory section of this report.

(iii) Details of paid-in capital are set out in note 25 of Section A of this report.

C. DISTRIBUTABLE RESERVES

Wuling Industrial was established on 30 October 2006. At 31 December 2006, Wuling Industrial had no reserves available for distribution to its shareholder.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Wuling Industrial Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The accompanying unaudited pro forma financial information of the Enlarged Group, comprising unaudited pro forma income statement, balance sheet and cash flow statement of the Enlarged Group, has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules, for illustrative purposes only, to provide information about how the proposed subscription of 51% of the Enlarged Registered Capital of Wuling Industrial (the "Subscription") as detailed in the "Letter from the Board" included in this circular might have affected the results of operations, financial position and cash flows of the Group as if the Subscription had been completed on (i) 1 January 2006 in respect of the unaudited pro forma income statement and cash flow statement of the Enlarged Group; and (ii) 31 December 2006 in respect of the unaudited pro forma balance sheet of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2006 as set out in Section 2 of Appendix I to this circular and the audited consolidated financial information of the Wuling Industrial Group as set out in the accountants' report in Appendix II to this circular after giving effect to the pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments of the Subscription that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Group and the Wuling Industrial Group; and (iii) factually supportable, is summarised in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the Subscription been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the audited consolidated financial statements of the Group as set out in Section 2 of Appendix I to this circular, the audited consolidated financial information of the Wuling Industrial Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

Unaudited pro forma income statement of the Enlarged Group for the year ended 31 December 2006 as if the Subscription had been completed on 1 January 2006

	The Group	The Wuling Industrial Group		Pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(c))*	*(Note 4)*	*(Note 5)*	
REVENUE	16,615	5,758,219	5,612,299				5,628,914
Cost of sales	—	(5,043,904)	(4,916,086)		(9,744)	(11,907)	(4,937,737)
Gross profit	16,615	714,315	696,213				691,177
Other income and gains	33,803	40,513	39,486				73,289
Cost of trading equity investments sold	(11,256)	—	—			11,256	—
Distribution costs	—	(113,236)	(110,366)				(110,366)
Administrative expenses	(12,669)	(303,543)	(295,850)		(17,694)		(326,213)
Other operating expenses	(3,571)	—	—	(2,500)	(3,217)	651	(8,637)
Unrealised gains on equity investments at fair value through profit or loss, net	961	—	—				961
Changes in fair value of investment properties	141	—	—				141
Reversal of impairment of loans receivable and other receivables	1,500	—	—				1,500
Finance costs	(3,439)	(15,128)	(14,745)				(18,184)
Share of result of an associate	—	617	601				601
PROFIT BEFORE TAX	22,085	323,538	315,339				304,269
Tax	(19)	(50,385)	(49,108)		4,598		(44,529)
PROFIT FOR THE YEAR	22,066	273,153	266,231				259,740

Unaudited pro forma balance sheet of the Enlarged Group as at 31 December 2006 as if the Subscription had been completed on 31 December 2006

	The Group	The Wuling Industrial Group		Pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(a))*	*(Note 3(b))*	*(Note 3(c))*	
NON-CURRENT ASSETS							
Property, plant and equipment	11,641	285,680	285,680				297,321
Investment properties	15,814	—	—				15,814
Intangible assets	875	—	—				875
Prepaid lease payments	—	2,071	2,071				2,071
Interest in an associate	—	1,657	1,657				1,657
Available-for-sale investments	—	498	498				498
Deposit for purchase of a property	193	—	—				193
Total non-current assets	28,523	289,906	289,906				318,429
CURRENT ASSETS							
Inventories	—	300,279	300,279				300,279
Loans receivable	15,221	—	—				15,221
Accounts receivable	9,299	2,511,483	2,511,483				2,520,782
Prepaid lease payments	—	49	49				49
Prepayments, deposits and other receivables	1,421	121,258	121,258				122,679
Equity investments at fair value through profit or loss	2,907	—	—				2,907
Pledged bank deposits	—	428,175	428,175				428,175
Client trust bank accounts	6,092	—	—				6,092
Cash and cash equivalents	7,607	179,771	179,771				187,378
Total current assets	42,547	3,541,015	3,541,015				3,583,562
CURRENT LIABILITIES							
Accounts payable	14,826	1,985,685	1,985,685				2,000,511
Other payables and accruals	5,314	324,183	324,183			2,500	331,997
Interest-bearing bank borrowings	808	295,318	295,318				296,126
Provision for warranty	—	38,668	38,668				38,668
Amount due to a related company	—	258,877	258,877				258,877
Amount due to an associate	—	11,073	11,073				11,073
Amount due to minority shareholders	—	—	—	473,875			473,875
Tax payable	52	54,273	54,273				54,325
Total current liabilities	21,000	2,968,077	2,968,077				3,465,452
NET CURRENT ASSETS	21,547	572,938	572,938				118,110
TOTAL ASSETS LESS CURRENT LIABILITIES	50,070	862,844	862,844				436,539

	The Group	The Wuling Industrial Group		Pro forma adjustments			Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(a))*	*(Note 3(b))*	*(Note 3(c))*	
NON-CURRENT LIABILITIES							
Interest-bearing bank borrowings	16,687	9,169	9,169				25,856
Deferred tax liabilities	19	—	—				19
Total non-current liabilities	16,706	9,169	9,169				25,875
Net assets	33,364	853,675	853,675				410,664
EQUITY							
Issued capital	3,069	150,000	150,000		(150,000)		3,069
Reserves	30,295	687,234	687,234	(457,434)	(229,800)	(2,500)	27,795
	33,364	837,234	837,234				30,864
Minority interests	—	16,441	16,441	(16,441)	379,800		379,800
Total equity	33,364	853,675	853,675				410,664

Unaudited pro forma cash flow statement of the Enlarged Group for the year ended 31 December 2006 as if the Subscription had been completed on 1 January 2006

	The Group	The Wuling Industrial Group		Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(c))*	*(Note 4)*	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax	22,085	323,538	315,339	(2,500)	(30,655)	304,269
Adjustments for:						
Finance costs	3,439	15,128	14,745			18,184
Share of profit or loss of an associate	—	(617)	(601)			(601)
Interest income	(2,514)	(8,236)	(8,027)			(10,541)
Dividend income from listed investments	(22)	—	—			(22)
Loss on disposal of items of property, plant and equipment	—	16,110	15,702			15,702
Gain on disposal of subsidiaries	(12,408)	—	—			(12,408)
Gain on the waiver of loan advances and related interest	(20,074)	—	—			(20,074)
Gain on disposal of equity investments at fair value through profit or loss, net	(111)	—	—			(111)
Unrealised gains on equity investments at fair value through profit or loss, net	(961)	—	—			(961)
Depreciation	215	52,740	51,403			51,618
Changes in fair value of investment properties	(141)	—	—			(141)
Reversal of impairment of loans receivable and other receivables	(1,500)	—	—			(1,500)
Provision for warranty	—	38,072	37,107			37,107
Release of prepaid lease payments	—	851	829			829
Allowance for inventories	—	6,119	5,964			5,964
Bad debt recovery	—	(292)	(285)			(285)
	(11,992)	443,413	432,176			387,029
Decrease in inventories	—	15,007	14,627			14,627
Decrease in loans receivable	1,248	—	—			1,248
Increase in trade and other receivables	(7,562)	(1,231,127)	(1,199,929)			(1,207,491)
Decrease in equity investments at fair value through profit or loss	77	—	—			77
Increase in client trust bank accounts	(3,295)	—	—			(3,295)
Increase in trade and other payables	16,342	651,185	634,683	2,500		653,525
Increase in an amount due to a minority shareholder	—	—	—		30,655	30,655
Decrease in provision for warranty	—	(15,651)	(15,254)			(15,254)
Exchange adjustments	—	—	4,556			4,556

	The Group	The Wuling Industrial Group		Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(c))*	*(Note 4)*	
Cash used in operations	(5,182)	(137,173)	(129,141)			(134,323)
Interest received	2,514	—	—			2,514
Dividend received from listed investments	22	—	—			22
Interest paid	(3,439)	—	—			(3,439)
Tax paid	—	(24,806)	(24,177)			(24,177)
Net cash outflow from operating activities	(6,085)	(161,979)	(153,318)			(159,403)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment	(11,903)	(69,810)	(68,041)			(79,944)
Purchases of investment properties	(15,673)	—	—			(15,673)
Deposit paid for purchase of a property	(193)	—	—			(193)
Disposal of subsidiaries	(693)	—	—			(693)
Proceeds from disposals of items of property, plant and equipment	—	6,877	6,703			6,703
Increase in pledged bank deposits	—	(286,327)	(279,071)			(279,071)
Disposal of available-for-sale investments	—	3,157	3,077			3,077
Interest received	—	8,236	8,027			8,027
Net cash outflow from investing activities	(28,462)	(337,867)	(329,305)			(357,767)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from rights issue	9,702	—	—			9,702
Proceeds from issue of shares	6,248	—	—			6,248
Share issue expenses	(1,225)	—	—			(1,225)
Proceeds from issue of warrants	2,400	—	—			2,400
New bank loans	17,626	324,763	316,533			334,159
Repayment of bank loans	(131)	(60,132)	(58,608)			(58,739)
Advance from a related company	—	81,513	79,447			79,447
Advance from an associate	—	8,902	8,676			8,676
Capital contribution from Wuling	—	45,001	43,861			43,861
Capital contribution from a minority shareholder of Wuling Industrial	—	2,775	2,705			2,705
Interest paid	—	(15,128)	(14,745)			(14,745)
Net cash inflow from financing activities	34,620	387,694	377,869			412,489
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	73	(112,152)	(104,754)			(104,681)

	The Group	The Wuling Industrial Group		Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 2)*	*(Note 3(c))*	*(Note 4)*	
Cash and cash equivalents at beginning of year	7,582	291,923	284,525			292,107
Effect of foreign exchange rate changes, net	(48)	—	—			(48)
CASH AND CASH EQUIVALENTS AT END OF YEAR	7,607	179,771	179,771			187,378
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	6,907	179,771	179,771			186,678
Non-pledged time deposits with original maturity of less than three months when acquired	700	—	—			700
	7,607	179,771	179,771			187,378

Notes:

1. The balances are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2006 as set out in Section 2 of Appendix I to this circular.

2. The balances are extracted from the audited consolidated financial information of the Wuling Industrial Group for the year ended 31 December 2006 as set out in Appendix II to this circular and were translated to Hong Kong dollars at translation rates of HK$100 = RMB100 in respect of the unaudited pro forma balance sheet and HK$100 = RMB102.6 in respect of the unaudited pro forma income statement and cash flow statement.

3. In accordance with the JV Capital Increase and Subscription Agreement, the Enlarged Registered Capital of Wuling Industrial of RMB767 million (approximately HK$774.75 million) shall be contributed by (i) Wuling by way of injection of the entire appraised net assets of Wuling Industrial at 31 December 2006 amounting to RMB376 million (approximately HK$379.8 million); and (ii) the Group by way of cash of RMB391 million (approximately HK$394.95 million).

   The adjustments represent:

   (a) the exclusion of the excess of approximately HK$473.9 million, representing the difference of the net assets of the Wuling Industrial Group as at 31 December 2006 of HK$853.7 million and the appraised net assets of RMB376 million (approximately HK$379.8 million) to be contributed by Wuling Industrial into the Joint Venture. The excess amount will be distributed to Wuling and minority shareholders of Wuling Industrial's subsidiaries by way of dividend before the completion of the Subscription;

   (b) reclassification of share capital and reserves of Wuling Industrial attributable to Wuling to minority interests of the Enlarged Group; and

   (c) the estimated direct costs of HK$2.5 million in relation to the Subscription.

   As also disclosed in section 2.1.2 of the "Letter from the Board" to this circular, the Subscription Money (i.e., RMB391 million) will be financed by internal resources or bank borrowings. The internal resources include, among others, the proceeds of HK$49.8 million received from the Company's warrant holders on 11 May 2007 following the exercise of the attached rights of the Company's warrants in full and conversion of such into 150,000,000 ordinary shares of the Company at a price of HK$0.332 per share. The conversion of the aforesaid warrants has not been reflected in the above unaudited pro forma financial information of the Enlarged Group.

   On the assumption that the Subscription Money will be financed by internal resources, the injection of the Subscription Money into the Joint Venture by way of cash does not have impact on the unaudited pro forma financial information of the Enlarged Group.

4. The Wuling Industrial Group has occupied the Leased Properties and employed the Trademark and the technology under the Patent of Wuling for its existing business and operation. In order to ensure the continuity of such business and operation following the set up of the Joint Venture, Wuling and the Joint Venture will enter into the Continuing Connected Transactions Agreements, including the Tenancy Agreement, the Trademark Agreement and the Patent Agreement on the JV Set-up Date as detailed in the section headed "Proposed Continuing Connected Transactions" in the "Letter from the Board" included in this circular. As these transactions will have a continuing impact on the operating results of the Wuling Industrial Group, pro forma adjustments are made to recognise the related expenses (comprising rental expense of HK$27,438,000, trademark fee of HK$1,950,000 and patent fee of HK$1,267,000) and related tax credit arising therefrom.

5. These represent reclassification adjustments to align with the presentation of the unaudited pro forma income statement of the Group and the Wuling Industrial Group.

B. LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of letter, prepared for the sole purpose of inclusion in this circular, received from Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Section A of Appendix III to this circular.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

25 June 2007

The Directors
Dragon Hill Holdings Limited

Dear Sirs

Dragon Hill Holdings Limited (the "Company") and its subsidiaries (collectively the "Group")

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") set out on pages 128 to 135 under the heading of "Unaudited pro forma financial information of the Enlarged Group" in Section A of Appendix III to the Company's circular dated 25 June 2007 (the "Circular") in connection with the Company's proposed subscription of 51% of the enlarged registered capital of Liuzhou Wuling Motors Industrial Company Limited (柳州五菱汽車有限責任公司) (the "Subscription"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Subscription might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 128 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

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

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2006 had the Subscription actually been completed on that date or any future date; or
- the results of operations and cash flows of the Group for the year ended 31 December 2006 had the Subscription actually been completed on 1 January 2006 or any future periods.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from ***Vigers Appraisal & Consulting Limited****, an independent professional valuer, in connection with the valuations of the properties held by the Group as well as to be held and to be rented by the Enlarged Group as at 31st May 2007.*

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants
10/F, The Grande Building
398 Kwun Tong Road, Kowloon, Hong Kong
Tel: (852) 2810 1100 Fax: (852) 2153 6180
www.vigers.com

VIGERS
威格斯

25 June 2007

The Board of Directors
Dragon Hill Holdings Limited
Unit 505, 5th Floor
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value the property interests held by Dragon Hill Holdings Limited (referred to as "the Company") and its subsidiaries (together referred to as "the Group") as well as the Group immediately after establishment of the Joint Venture named "Liuzhou Wuling Motors Industrial Company Limited" (which will be a 51%-owned subsidiary of the Company) (hereinafter together referred to as "the Enlarged Group"), we confirm that we have inspected the properties, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of values of the property interests of the properties in concern as at 31st May 2007 (the "Valuation Date").

BASIS OF VALUATION

Our valuations are our opinion of market values of the property interests of the properties in concern which is defined as intended to mean "*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*". Our valuations have been prepared in accordance with "The HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

PROPERTY CATEGORISATION

In the course of our valuations, we have categorized the property interests of the properties in concern into the following four groups.

Group I and Group II

Properties in Group I and Group II are completed properties held by the Group in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") for owner-occupation and investment purposes. Comparisons based on transactions on actual sales of comparable properties have been made. Comparable properties with similar character, location, sizes and so on are analyzed and carefully weighted against all respective advantages and disadvantages of the properties in order to arrive at the fair comparison of values.

Group III

With respect to the property interest of property in Group III which is the property to be owned by the Enlarged Group in the People's Republic of China (the "PRC") for owner-occupation purpose. Comparisons based on transactions on actual sales or offerings of comparable properties with due regard to the Standard Land Price have been made. Comparable properties with similar character, location, size and so on are analyzed and carefully weighted against all respective advantages and disadvantages of the property in order to arrive at the fair comparison of value.

Group IV

In respect of the property interest of the property in Group IV which are the property to be rented by the Enlarged Group in the PRC, we are of the opinion that the property interest of the property in concern has no commercial value due to the prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent and/or the short term nature of the property interest.

TITLE INVESTIGATION

With respect to the properties located in Hong Kong, we have conducted land searches at the Land Registry but we have not searched the original documents to ascertain ownership nor to verify any lease amendments which might not appear on the copies handed to us. All documents have been used for reference purposes and all dimensions, measurements and areas are therefore approximations. In respect of the properties located in the PRC, we have been given extracted copies of relevant title documents and copies of relevant tenancy agreements. We have not checked title to the properties nor scrutinized the original title documents, however.

In respect of the properties located in the PRC, we have relied on the advice given by the Enlarged Group and its legal adviser on the laws of the PRC, GFE Law Office (hereinafter referred to as the "PRC Legal Advisors") regarding title to the property interests of the properties in concern. For the purpose of our valuations, we have taken into account the legal opinion of the PRC Legal Advisors. While we have exercised our professional judgement in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the property interests of the properties can be sold in the prevailing market in existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the values of the property interests of the properties.

In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property interests of the properties, and no allowance is made for the property interests of the properties to be sold to a single party and/or as a portfolio or portfolios.

In valuing the property interests of the properties, we have assumed that the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired terms granted subject to the payment of the usual Government Rents or land-use fees.

No site investigation has been carried out to determine the suitability of the ground conditions or the services for any property development erected on the properties. Our valuations have been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests of the properties being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the properties are free from any encumbrances, restrictions and outgoings of an onerous nature which could serve to affect the values of the property interests of the properties in concern.

We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas in respect of the properties in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct.

Other special assumptions for each of the property interests of the property have been stated in the footnotes of the valuation certificate for the respective property, if any.

VALUATION CONSIDERATION

We have inspected the properties included in the attached valuation certificate. During the course of our inspections, we did not note any serious defect. However, no structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the properties in concern are free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Enlarged Group, particularly in respect of planning approvals, statutory notices, easements, tenure, land-use rights, site areas, floor areas, occupancy status and in the identification of the properties in concern.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided to us by the Enlarged Group, and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Enlarged Group that no material facts have been omitted from the information so given.

REMARKS

We declare hereby that we are independent to the Enlarged Group and we are not interested beneficially or non-beneficially in any shares in any member of the Enlarged Group. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Enlarged Group.

Unless otherwise stated, all monetary amounts stated herein are in the currency of Hong Kong Dollars ("HK$"), the lawful currency of Hong Kong. The exchange rate used in our valuation for the conversion of Renminbi ("RMB"), the lawful currency of the PRC, is HK$1.00 to RMB0.99 which is prevailing as of the Valuation Date. There has been no significant fluctuation in the exchange rates for RMB against HK$ between the Valuation Date and the date of this letter.

We enclose herewith our Summary of Values and Valuation Certificates.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED

David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 23 years' valuation experience on properties in Hong Kong and the PRC, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.

SUMMARY OF VALUES

No.	Property Address	Capital Value in Existing State as at 31st May 2007	Interest attributable to the Group	Capital Values attributable to the Group as at 31st May 2007
Group I — Property Interests held by the Group in Hong Kong for Owner-occupation Purposes				
1.	Office Nos. 504 and 505 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road Central, No. 73 Connaught Road Central, Nos. 61–65 Gilman Street, Central, Hong Kong	HK$13,200,000	100%	HK$13,200,000
2.	Flat H on 13th Floor, Southern Building, Nos. 257–273 King's Road, North Point, Hong Kong	HK$1,680,000	100%	HK$1,680,000
	Sub-total	HK$14,880,000		HK$14,880,000
Group II — Property Interests held by the Group in Hong Kong for Investment Purposes				
3.	Office No. 506 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road Central, No. 73 Connaught Road Central, Nos. 61–65 Gilman Street, Central, Hong Kong	HK$6,620,000	100%	HK$6,620,000
4.	Portion B on 23rd Floor, Yardley Commercial Building, No. 3 Connaught Road West, Sheung Wan, Hong Kong	HK$11,300,000	100%	HK$11,300,000
	Sub-total	HK$17,920,000		HK$17,920,000

No.	Property Address	Capital Value in Existing State as at 31st May 2007	Interest attributable to the Group	Capital Values attributable to the Group as at 31st May 2007
Group III — Property Interests to be held by the Enlarged Group in the PRC for Owner-occupation purposes				
5.	No. 13 Xihuan Road, Liuzhou, Guangxi Zhuang Autonomous Region, The PRC	RMB3,110,000 (or equivalent to HK$3,141,414)	50.898%	RMB1,582,928 (or equivalent to HK$1,598,917)
	Sub-total	HK$3,141,414		HK$1,598,917
Group IV — Property Interests to be rented by the Enlarged Group in the PRC				
6.	11 parcels of land and 82 buildings, Liuzhou, Guangxi Zhuang Autonomous Region, The PRC			No commercial value
	Sub-total			No commercial value
	GRAND TOTAL	HK$35,941,414		HK$34,398,917

VALUATION CERTIFICATE

Group I — Property Interests held by the Group in Hong Kong for Owner-occupation Purposes

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May 2007
1.	Office Nos. 504 and 505 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road Central, No. 73 Connaught Road Central, Nos. 61–65 Gilman Street, Central, Hong Kong All those 323/44680th parts or pieces of ground known and registered in the Land Registry as The Remaining Portion of Marine Lot No. 395 and the Extension Thereto	The property comprises two contiguous office units on the 5th Floor of China Insurance Group Building, which is a 31-storey (excluding basement) office building completed in or about 1966. The property has a total saleable area of 204.20 square metres (2,198 square feet) or thereabout. Marine Lot No. 395 is held under Government Lease for a term of 999 years commencing on 14th July 1903 with Government Rent payable of HK$246 per annum.	The property is owner-occupied for office use.	HK$13,200,000 *(100% interest attributable to the Group: HK$13,200,000)*

Notes:

1. The current registered owner of the property is "Hilcrest Limited", a wholly-owned subsidiary of the Company, vide Memorial No. 06102702520335 dated 6th October 2006.

2. Pursuant to our recent land search records, the property is subject to a mortgage to secure all moneys in respect of general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 06102702520345 dated 6th October 2006.

3. The property lies on an area zoned "Commercial/Residential" under Sai Ying Pun & Sheung Wan Outline Zoning Plan (No. S/H3/21) dated 17th March 2006.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May 2007
2.	Flat H on 13th Floor, Southern Building, Nos. 257–273 King's Road, North Point, Hong Kong All those 1/332nd parts or pieces of ground known and registered in the Land Registry as The Remaining Portion of Section D of Marine Lot No. 321 and Section A of Sub-section 1 of Section D of Marine Lot No. 321	The property comprises a domestic unit on the 13th Floor of Southern Building, which is a 20-storey residential and retail composite building completed in or about 1964. The property has a saleable area of 56.21 square metres (605 square feet) or thereabout. Marine Lot No. 321 is held under Government Lease for a term of 75 years commencing on 31st August 1914 renewed for a further term of 75 years. The Government Rent payable for The Remaining Portion of Section D of Marine Lot No. 321 and Section A of Sub-section 1 of Section D of Marine Lot No. 321 is HK$1,080 per annum.	The property is owner-occupied as staff quarter.	HK$1,680,000 *(100% interest attributable to the Group: HK$1,680,000)*

Notes:

1. The current registered owner of the property is "Jenpoint Limited", a wholly-owned subsidiary of the Company, vide Memorial No. 07012501820021 dated 10th January 2007.

2. Pursuant to our recent land search record, the property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited vide Memorial No. 07031400920021 dated 9th March 2007.

3. The property lies on an area zoned "Commercial/Residential" under North Point Outline Zoning Plan (No. S/H8/19) dated 18th February 2005.

VALUATION CERTIFICATE

Group II — Property Interests held by the Group in Hong Kong for Investment Purposes

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May 2007
3.	Office No. 506 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road Central, No. 73 Connaught Road Central, Nos. 61–65 Gilman Street, Central, Hong Kong All those 163/44680th parts or pieces of ground known and registered in the Land Registry as The Remaining Portion of Marine Lot No. 395 and the Extension Thereto	The property comprises an office unit on the 5th Floor of China Insurance Group Building, which is a 31-storey (excluding basement) office building completed in or about 1966. The property has a saleable area of 102.47 square metres (1,103 square feet) or thereabout. Marine Lot No. 395 is held under Government Lease for a term of 999 years commencing on 14th July 1903 with Government Rent payable of HK$246 per annum.	The property is let for a term of two years commencing on 26th January 2007 and expiring on 25th January 2009 (both days inclusive) at a monthly rent of HK$36,800 inclusive of management fee, Government Rent and Rates but exclusive of utility charges. The property at present is occupied by the tenant as office.	HK$6,620,000 *(100% interest attributable to the Group: HK$6,620,000)*

Notes:

1. The current registered owner of the property is “Hilcrest Limited”, a wholly-owned subsidiary of the Company, vide Memorial No. 06102702520335 dated 6th October 2006.

2. Pursuant to our recent land search record, the property is subject to a mortgage to secure all moneys in respect of general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. 06102702520345 dated 6th October 2006.

3. According to the information provided by the Group, the lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

4. The property lies on an area zoned “Commercial/Residential” under Sai Ying Pun & Sheung Wan Outline Zoning Plan (No. S/H3/21) dated 17th March 2006.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May 2007
4.	Portion B on 23rd Floor, Yardley Commercial Building, No. 3 Connaught Road West, Sheung Wan, Hong Kong All those 27/2001st parts or pieces of ground known and registered in the Land Registry as The Remaining Portion of Section A and The Remaining Portion of Marine Lot No. 424, The Remaining Portion of Section A, The Remaining Portion of Section B and The Remaining Portion of Marine Lot No. 425, and The Remaining Portion of Marine Lot No. 426	The property comprises an office unit on the 23rd Floor of Yardley Commercial Building, which is a 27-storey (excluding basement and cockloft) office building completed in or about 1981. The property has a saleable area of 191.10 square metres (2,057 square feet) or thereabout. Marine Lot Nos. 424, 425 and 426 are held under three Government Leases for the terms of 999 years commencing on 1st December 1900, 31st January 1901 and 31st January 1901 respectively with total Government Rent payable of HK$218.01 per annum.	The property is let for a term of two years commencing on 18th July 2005 and expiring on 17th July 2007 at a monthly rent of HK$31,625 exclusive of Rates, Government Rent, management fees, air-conditioning charges and other outgoings with an option to renew for a further term of two years at the then prevailing market rent. The property at present is occupied by the tenant as office.	HK$11,300,000 *(100% interest attributable to the Group: HK$11,300,000)*

Notes:

1. The current registered owner of the property is "Jenpoint Limited", a wholly-owned subsidiary of the Company, vide Memorial No. 06112402500039 dated 31st October 2006.

2. Pursuant to our recent land search record, the property is subject to a mortgage to secure all moneys in respect of general banking facilities and a rental assignment in favour of Hang Seng Bank Limited vide Memorial Nos. 06112402500048 and 06112402500059 both dated 31st October 2006.

3. According to the information provided by the Group, the lessor is an independent third party, which is not connected with and is independent of, any of the directors, or any of their respective associates of the Group.

4. The property lies on an area zoned "Commercial/Residential" under Sai Ying Pun & Sheung Wan Outline Zoning Plan (No. S/H3/21) dated 17th March 2006.

VALUATION CERTIFICATE

Group III — Property Interests to be held by the Enlarged Group in the PRC for Owner-occupation purposes

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May 2007
5.	No. 13 Xihuan Road, Liuzhou, Guangxi Zhuang Autonomous Region, The PRC	The property comprises 2 parcels of adjoining land roughly flatted in level. The property has a total site area of approximately 40,207.30 square metres (432,788 square feet). Part of the property having a site area of approximately 6,907.50 square metres (74,352 square feet) is held under land-use rights for industrial use with a term to be expired on 29th April 2049; whilst the remainder of the property having a site area of approximately 33,299.80 square metres (358,436 square feet) (including railway protection area of approximately 2,882.70 square metres (31,029 square feet)) is held in the form of allocated land.	The property is used as industrial land.	RMB3,110,000 (or equivalent to HK$3,141,414) *(50.898% interest attributable to the Group: RMB1,582,928 (or equivalent to HK$1,598,917))* *(Please also refer to Note 3 below.)*

Notes:

1. Pursuant to Certificate of State-owned Land-use (Document No.: Liu Guo Yong (2002) Zi No. 103156) issued by Bureau of Land Resources of Liuzhou Municipality dated 30th October 2002, a parcel of land located at No. 13 Xihuan Road, Liuzhou City having a site area of approximately 6,907.50 square metres (74,352 square feet) for industrial use is vested in the name of "Liuzhou Wuling Motors United Development Company Limited" with a land-use rights term to be expired on 29th April 2049.

2. Pursuant to Certificate of State-owned Land-use (Document No.: Liu Guo Yong (2003) No. 100684) issued by the People's Government of Liuzhou Municipality dated 25th February 2003, a parcel of land located at No. 13 Xihuan Road, Liuzhou City having a site area of approximately 33,299.80 square metres (358,436 square feet) is vested in the name of "Liuzhou Wuling Motors United Development Company Limited" in the form of "allocated land-use rights" for a period not more than five years from the re-organization of the original land user.

3. In the course of our valuation, we have ascribed no commercial value to part of the property which is held in the form of "allocated land-use rights" due to the non-transferral nature of land-use rights.

4. The PRC Legal Advisors have stated in their legal opinion including but not limited to the following:

   i. Part of the property having a site area of approximately 6,907.50 square metres (74,352 square feet) is vested in the name of "Liuzhou Wuling Motors United Development Company Limited" under Certificate of State-owned Land-use (Document No.: Liu Guo Yong (2002) Zi No. 103156) for a land-use rights term to be expired on 29th April 2049. "Liuzhou Wuling Motors United Development Company Limited" has obtained and processed the land-use rights of the said land according to the laws of the PRC, and has the right to use, transfer, lease, mortgage the state-owned land-use rights during the remaining land-use rights term.

ii. Part of the property having a site area of approximately 33,299.80 square metres (358,436 square feet) (including railway protection area of approximately 2,882.70 square metres (31,029 square feet)) is vested in the name of "Liuzhou Wuling Motors United Development Company Limited" under Certificate of State-owned Land-use (Document No.: Liu Guo Yong (2003) Zi No. 100684) in the form of allocated land. "Liuzhou Wuling Motors United Development Company Limited" has legally obtained and processed the land-use rights which is protected by the laws of the PRC during the land-use rights term. Upon converting into a Sino-foreign Joint Venture or having a period not more than five years from the re-organization of the original land user (i.e. 24th February 2008), whichever earlier, "Liuzhou Wuling Motors United Development Company Limited" has to process the grant procedure and settle the land-use rights premium for the continual enjoyment of the land-use rights.

iii. "Liuzhou Wuling Motors United Development Company Limited" is a limited liability company established in accordance with the laws of the PRC, in which the Group will have 50.898% equity interest.

VALUATION CERTIFICATE

Group IV — Property Interests to be rented by the Enlarged Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May 2007
6.	11 parcels of land and 82 buildings, Liuzhou, Guangxi Zhuang Autonomous Region, The PRC	The property comprises 11 parcels of adjoining land and 82 buildings erected thereon completed ranging from 1957 to 2005. The property has a total site area and total gross floor area of approximately 623,464.40 square metres (6,710,908 square feet) and 223,136.74 square metres (2,401,852 square feet) respectively. Pursuant to a proposed tenancy agreement to be entered into between "Liuzou Wuling Motors Company Limited" as lessor and "Liuzhou Wuling Motors Industrial Company Limited" as lessee, the property will be leased to the later for a term from the date of Business Licence with respect to the Sino-foreign Joint Venture of the Company and "Liuzou Wuling Motors Company Limited" to be expired on 31st December 2009 at a monthly rent of RMB2,346,000 inclusive of land-use fee, property tax and leasing management fee but exclusive of utility charges and property management fee.	The property is used as plants production and ancillary office	No commercial value

Note:

1. The PRC Legal Advisors have stated in their legal opinion including but not limited to the following:

   i. The proposed tenancy agreement will be valid and legal binding upon obtaining approval from the relevant government departments. According to the laws of the PRC, the lessor and lessee shall enter into a written tenancy agreement and register in the relevant housing departments.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

Directors and chief executive

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company held any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules:

In respect of the Shares of the Company:

Name of Director	Personal interests	Family interests	Corporate interests	Equity derivative (Share option)	Total	Percentage of the issued share capital of the Company
Mr. Lee Shing *(Note 1)*	—	—	547,459,613	—	547,459,613	59.68%

Note 1: 547,459,613 Shares were registered in the name of and beneficially owned by Dragon Hill Development Limited. The entire issued share capital of Dragon Hill Development Limited was registered in the name of and beneficially owned by Mr. Lee Shing.

Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, no other persons had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital:

Name of Shareholder	Number of issued Shares	Capacity in which shares are held	Percentage of the issued share capital of the Company
Dragon Hill Development Limited *(Notes 1 and 3)*	547,459,613	Beneficial owner	59.68%
Mr. Lee Shing *(Note 1)*	547,459,613	Interest in controlled corporation	59.68%
Mr. Zhou Sheji *(Note 2)*	91,530,000	Beneficial owner, interest in controlled corporation	9.98%
Gao Bao Development Limited *(Note 2)*	90,280,000	Beneficial owner	9.84%
柳州五菱汽車有限責任公司 (i.e. Wuling) *(Note 3)*	266,500,000	Beneficial owner	29.05%

Notes:

1. The entire issued share capital of Dragon Hill Development Limited is legally and beneficially owned by Mr. Lee Shing, a Director. Mr. Lee Shing is therefore deemed to have an interest in the Shares in which Dragon Hill is interested. Accordingly, the interest held by Dragon Hill Development Limited and Mr. Lee Shing (as disclosed in the above section headed "Directors and chief executive" and this section headed "Substantial Shareholders") refers to the same parcel of Shares.

2. The entire issued share capital of Gao Bao Development Limited is legally and beneficially owned by Mr. Zhou Sheji. Accordingly, the 90,280,000 Shares held by Gao Bao Development Limited is included in the interests held by Mr. Zhou Sheji.

3. Dragon Hill Development Limited and Wuling entered into the Share Sale Agreement, whereby the parties have conditionally agreed to the sale of 266,500,000 Shares by Dragon Hill Development Limited to Wuling (or its wholly-owned subsidiary(ies)). Such 266,500,000 Shares overlap with, and form parts of, 547,459,613 Shares owned by Dragon Hill Development Limited.

3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Enlarged Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Enlarged Group, which does not expire or is not determinable by the relevant member of the Enlarged Group within one year without compensation, other than statutory compensation.

5. MATERIAL CONTRACTS

Save as disclosed below, the Enlarged Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular which are or may be material:

1. a subscription agreement dated 30 March 2006 whereby the Company agreed to issue and the Controlling Shareholder agreed to subscribe for convertible preference shares which was completed on 20 June 2006;

2. a disposal agreement dated 30 March 2006 whereby Watary Investment Limited, a wholly-owned subsidiary of the Company, as vendor/assignor and Magnum (Guernsey) Limited as purchaser/assignee in relation to the sale and purchase of the entire issued share capital of Lismore Properties Limited and the assignment of the amounts due from Lismore Properties Limited to Watary Investment Limited, which was completed on 20 June 2006;

3. a deed of settlement date 30 March 2006 in respect of the repayment and settlement of the outstanding loans extended by Magnum (Guernsey) Limited, Magnum Enterprise Sdn Bhd and Magnum Investment Limited to the Company and its subsidiaries, which took place on 20 June 2006;

4. the underwriting agreement dated 28 July 2006 entered into between the Company and the Controlling Shareholders in the capacity of underwriter to a rights issue of the Company, which was completed on 5 September 2006;

5. the agreement dated 3 August 2006 entered into by Hilcrest Limited, a wholly-owned subsidiary of the Company and China Point Finance Limited pursuant to which Hilcrest Limited has agreed to acquire and China Point Finance Limited has agreed to sell the property at Units 504, 505 and 506, 5th Floor, China Insurance Group Building, 141 Des Voeux Road, Central, Hong Kong;

6. the provisional agreement dated 18 August 2006 entered into by Jenpoint Limited, a wholly-owned subsidiary of the Company and Asian Outreach International Limited pursuant to which Jenpoint Limited has agreed to acquire and Asian Outreach International Limited has agreed to sell the property at Portion B, 23rd Floor, Yardley Commercial Building, 3 Connaught Road West, Hong Kong;

7. Previous Framework Agreement;

8. Revised Framework Agreement;

9. JV Capital Increase and Subscription Agreement;

10. JV Set-up Agreement;

11. JV Articles of Association; and

12. an agreement dated 11 September 2006 (as supplemented by a supplemental agreement dated 11 September 2006) entered into by Wuling Motors United Development and Guangxi Zhuang Autonomous Region Liuzhou Municipal Bureau of State Land and Resources (廣西壯族自治區柳州市國土資源局) in relation to the grant of land use rights regarding land amounting to 21,057.60 square metres at the consideration of RMB6,290,900; and

13. the preliminary contract dated 20 August 2006 entered into by Wuling Motors United Development and Qingdao Economic and Technical Development Zone Bureau of State Land and Resources (青島經濟技術開發區國土資源局) in relation to the grant of land use rights regarding land amounting to 63,916 square metres at the consideration of RMB3,355,590.

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there is no material adverse change in the financial or trading prospect of the Group since 31 December 2006, the date to which the latest audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date.

8. EXPERTS, CONSENTS AND INTEREST IN ASSETS

The followings are the qualifications of the experts who have given opinion and advice, which are contained in this circular, as at the date hereof:

Name	Qualification
South China Capital	A deemed licensed corporation to carry out type 6 (advising on corporate finance) regulated activity as set out in Schedule 5 to the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Ernst & Young	Certified public accountants
Vigers Appraisal & Consulting Limited (“Vigers”)	Independent professional valuer
GFE Law Office (“GFE”)	Legal advisers on PRC Law

All of the above experts have given and have not withdrawn their written consent to the issue of this circular with the inclusions of their respective letters and references to their names in the form and context in which they appear.

As at the Latest Practicable Date, none of South China Capital, Deloitte Touche Tohmatsu, Ernst & Young, Vigers and GFE was beneficially interested in the share capital of any member of the Enlarged 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 Enlarged Group, nor did it have any direct or indirect interest in any assets which were, since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

9. MISCELLANEOUS

(a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The head office and principal place of business pf the Company in Hong Kong is situated at Unit 505, 5th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

(b) The company secretary and qualified accountant of the Company, Mr. Lai Shi Hong, Edward, is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited at 26th floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text thereof.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at Unit 505, 5th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong during normal business hours on any weekdays other than public holidays between the period from 25 June 2007 to 12 July 2007 (both days inclusive):

(a) the memorandum of association and the bye-laws of the Company;

(b) the material contracts referred to in the section headed "Material contracts" in this appendix;

(c) the written consents referred to under the section headed "Experts, consents and interest in assets" in this appendix;

(d) the annual reports of the Company for the three years ended 31 December 2006;

(e) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 28 and 29 of this circular;

(f) the letter from South China Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 30 to 47 of this circular;

(g) the Accountants' Report on the Wuling Industrial Group issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(h) the unaudited pro forma financial information on the Enlarged Group and the comfort letter thereon from Ernst & Young, the text of each of which is set out in Appendix III to this circular;

(i) the property valuation report on the Enlarged Group issued by Vigers, the text of which is set out in Appendix IV to this circular; and

(j) a copy of each circular of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

DRAGON HILL HOLDINGS LIMITED

俊山集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 305)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting (the "**SGM**") of Dragon Hill Holdings Limited (the "**Company**") will be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 July 2007 at 11:00 a.m. for the purposes of considering and, if thought fit, passing each of the following resolutions as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. **"THAT**

(a) the JV Agreements (namely, the JV Capital Increase and Subscription Agreement, the JV Set-up Agreement and JV Articles of Association) (all as defined in the circular dated 25 June 2007 (the "**Circular**")), copies of which have been produced to the SGM and marked "A1", "A2" and "A3" respectively and initialed by the chairman of the SGM for the purpose of identification) and the terms thereof be and are hereby approved, confirmed and ratified;

(b) the set up of the Joint Venture (as defined in the Circular) by the Company and 柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Company Limited) (a wholly state-owned limited enterprise established in the PRC) and the proposed investment by the Company in 柳州五菱汽車有限責任公司 (Liuzhou Wuling Motors Industrial Company Limited) (a state-owned limited company established in the PRC) pursuant to the JV Agreements be and is hereby approved;

(c) all other transactions contemplated under the JV Agreements be and are hereby approved; and

(d) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the JV Agreements and completion thereof."

2. **"THAT**

(a) the Continuing Connected Transactions Agreements (namely, the Tenancy Agreement, the Trademark Agreement and the Patent Agreement) (all as defined in the Circular), copies of which have been produced to the SGM and marked "B1", "B2" and "B3" respectively and initialed by the chairman of the meeting for the purpose of identification) and the terms thereof be and are hereby approved, confirmed and ratified;

(b) the annual caps (as stated in the Circular) for the transactions contemplated under the Continuing Connected Transactions Agreements for the three financial years ending 31 December 2009 as shown in the Circular be and are hereby approved;

(c) all other transactions contemplated under the Continuing Connected Transactions Agreements be and are hereby approved; and

(d) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated in the Continuing Connected Transactions Agreements."

3. "**THAT**,

(a) conditional upon completion of the Proposed Transactions (as defined in the Circular) and subject to the approval of the Registrar of Companies in Bermuda, the name of the Company be changed from "Dragon Hill Holdings Limited" to "Dragon Hill Wuling Automobile Holdings Limited" (the "New English Name") and a new Chinese name of "俊山五菱汽車集團有限公司" (the "New Chinese Name"), for identification purpose only, be adopted to replace the current Chinese name of "俊山集團有限公司"; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents and to do all such acts or things as he/they may in his/their absolute discretion, deem fit, to effect and implement the change of name of the Company."

By order of the Board
Dragon Hill Holdings Limited
Lee Shing
Chairman

Hong Kong, 25 June 2007

As at the date of this circular, the Board comprises:

Executive Directors:
Mr. Lee Shing
Ms. Liu Yaling
Mr. Wang Shaohua
Mr. Pei Qingrong

Independent non-executive Directors:
Mr. Yu Xiumin
Mr. Zuo Duofu
Mr. Cheng Kin Wah, Thomas

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Notes:

(1) A member entitled to attend and vote at the SGM may appoint a proxy to attend and vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the SGM is enclosed.

(2) A form of proxy in respect of the SGM is enclosed. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

(3) In order to be valid, the form of proxy, together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or other authority, must be deposited at the Company's Hong Kong share registrar, Tengis Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.

(4) Where there are joint holders of a share of the Company, any one of such holders may vote at the SGM, either personally or by proxy, in respect of such share as if he were solely entitle thereto, but if more than one of such holders are present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.