THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

CHALLENGER GROUP HOLDINGS LIMITED

挑戰者集團控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8203)

(I) VERY SUBSTANTIAL ACQUISITION IN RELATION TO IMARE COMPANY LIMITED;
(II) PLACING OF CONVERTIBLE BONDS;
(III) SUBSCRIPTION OF HK$540 MILLION PLACING CONVERTIBLE BONDS;
(IV) PLACING OF NEW SHARES;
(V) CONTINUING CONNECTED TRANSACTION;
AND
(VI) RE-ELECTION OF DIRECTOR

Arranger, Placing Agent and Financial Adviser to the Company

東英 ORIENTAL PATRON

Oriental Patron Asia Limited

Independent financial adviser to the independent board committee and the independent shareholders of the Company

AmCap

Ample Capital Limited

豐盛融資有限公司

A letter of advice from the independent board committee of the Company is set out on page 54 of this circular.

A letter of advice from Ample Capital Limited, the independent financial adviser, containing its opinion and advice to the independent board committee and the independent shareholders of the Company is set out on pages 55 to 61 of this circular.

A notice convening the extraordinary general meeting of the Company (the "**EGM**") to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on 20 May 2008 at 11:00 a.m. is set out on pages 165 to 168 of this circular.

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, to the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

This circular will remain at www.hkgem.com on the "Latest Company Announcements" page of the GEM website for at least 7 days from the date of its posting.

* *For identification purpose only*

30 April 2008

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

Unless the context requires otherwise, the capitalised terms used herein shall have the following meanings:

"Acquisition"	the acquisition of the Sale Shares and Sale Loan by Coastal Kingfold from Grand Pacific on the terms and conditions of the Sale and Purchase Agreement
"Acquisition Completion"	completion of the Acquisition
"Acquisition Completion Date"	the date on which the Acquisition Completion takes place, in accordance with the Sale and Purchase Agreement
"acting in concert"	as such term is defined under the Takeovers Code
"Ample Capital"	Ample Capital Limited, a licensed corporation under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, and is the independent financial adviser in relation to the Supply Agreement and the Annual Caps
"Announcement"	the announcement dated 18 February 2008 made by the Company regarding, among others, (i) the very substantial acquisition in relation to Imare Company Limited; (ii) the placing of Convertible Bonds; (iii) the placing of new Shares; (iv) the Supply Agreement (including the Annual Caps); and (v) appointment of Mr. Yeap as an executive Director and the chief executive officer of the Company
"Annual Caps"	the annual transaction amounts for the sale of the Raw Coal from Mengxi Minerals to Mengxi Chemical for each of the three years ending 31 March 2011
"associate(s)"	as such term is defined under the GEM Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday and any day on which a tropical cyclone warning number 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business

"CB Placing"	the placing of the Placing Convertible Bonds by Oriental Patron pursuant to the CB Placing Agreement
"CB Placing Agreement"	the conditional convertible bonds placing agreement dated 1 February 2008 entered into between the Company and Oriental Patron in relation to the CB Placing, as amended and supplemented by the supplemental agreement dated 25 April 2008 entered into between the Company and Oriental Patron
"CB Placing Completion"	the completion of the CB Placing Agreement
"CB Subscriber(s)"	the subscriber(s) of the Placing Convertible Bonds pursuant to the terms of the CB Placing Agreement and includes GGFYL as a subscriber for the Subscription Bonds under the Subscription Agreement
"Closing"	closing of the issue of the Subscription Bonds to GGYFL under and pursuant to the terms of the Subscription Agreement
"Closing Date"	the next Business Day following the delivery by the Company of the Closing Notice to GGYFL
"Closing Notice"	the notice in writing to be delivered by the Company to GGYFL following the satisfaction/ waiver of the conditions precedent to the Subscription Agreement pursuant to the terms thereof
"Coastal Kingfold"	Coastal Kingfold Finance Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Company"	Challenger Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the GEM
"connected person(s)"	as such term is defined under the GEM Listing Rules
"Consideration Convertible Bonds"	the convertible bonds with an aggregate principal amount of HK$170 million, bearing interest at 1.0 % per annum, to be issued by the Company as partial consideration for the Acquisition
"Consideration Shares"	230 million new Shares to be allotted and issued by the Company at HK$0.80 per Share as partial consideration for the Acquisition
"controlling shareholder"	as such term is defined under the GEM Listing Rules

"Conversion Date"	the dates on which the holders of the Convertible Bonds exercise the conversion rights attaching to the Convertible Bonds
"Conversion Price"	the price at which each Conversion Share will be issued upon a conversion of all or part of the Convertible Bonds
"Conversion Shares"	new Shares to be allotted and issued by the Company upon exercise of the conversion rights attached to the Convertible Bonds
"Convertible Bonds"	the Placing Convertible Bonds and the Consideration Convertible Bonds
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company convened to be held on 20 May 2008 at 11:00 a.m. to approve, inter alia, (i) the Sale and Purchase Agreement; (ii) the CB Placing Agreement; (iii) the Supply Agreement (including the Annual Caps); and (iv) the re-election of Mr. Yeap as a Director
"Enlarged Group"	the Group upon the Acquisition Completion
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM
"General Mandate"	the general and unconditional mandate granted to the Directors to allot, issue and deal with up to 108 million new Shares, i.e. 20% of the then issued share capital of the Company of 540,000,000 Shares as at 29 August 2007 (being the date of the annual general meeting of the Company)
"GGYFL"	GEM Global Yield Fund Limited
"Gold Master"	Gold Master Business Limited, a substantial Shareholder
"Grand Pacific"	Grand Pacific Source Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of GGYFL
"Group"	the Company and its subsidiaries
"HKAS"	Hong Kong Accounting Standards as promulgated from time to time by The Hong Kong Institute of Certified Public Accountants

"HKFRS"	Hong Kong Financial Reporting Standards as promulgated from time to time by The Hong Kong Institute of Certified Public Accountants
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Imare"	Imare Company Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Grand Pacific
"Imare Group"	a group comprising Imare, Joy Harvest, Mengxi Minerals and Mengxi Chemical upon completion of the Treasure Success SPA
"Independent Board Committee"	an independent committee of the Board consisting of three independent non-executive Directors, namely Mr. LIEW Swee Yean, Mr. SIU Siu Ling, Robert and Dr. WONG Yun Kuen, to advise the independent Shareholders in respect of the Supply Agreement and the Annual Caps
"Independent Third Party(ies)"	a party(ies) who is/are independent of and is/are not connected with any of the directors, chief executives, substantial shareholders or management shareholders (as defined under the GEM Listing Rules) of the Company or any of its subsidiaries or any of their respective associates
"JHI"	Joy Harvest Investment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of GGYFL
"Joy Harvest"	Joy Harvest Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Treasure Success before completion of the Treasure Success SPA
"Joy Harvest Group"	Joy Harvest and the JV Companies
"JV Companies"	Mengxi Minerals and Mengxi Chemical
"Last Trading Day"	1 February 2008, being the last trading day on which the Shares were traded on the GEM pending the publication of the Announcement
"Latest Practicable Date"	25 April 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Majority Investors"	a CB Subscriber or the CB Subscribers who alone or together have agreed to subscribe for more than 50% of the aggregate principal amount of the Placing Convertible Bonds
"Management Services Agreement"	the technical and management consultancy services agreement dated 5 November 2007 entered into by and among (i) Joy Harvest; (ii) Shangco; and (iii) Yiou Auto
"Market Price"	the price of the same type of product in the mineral product market in the Inner Mongolia or any price of the same type of products as announced by the relevant authoritative authorities including online organisation (such as China Coal Resource website http://www.sxcoal.com).
"Mengxi Chemical"	Ordos GEM Coal & Chemical Co., Ltd. (鄂爾多斯市啟杰蒙西煤化有限公司), a sino-foreign equity joint venture established in the PRC, 70% equity interest of which is owned by Joy Harvest
"Mengxi Debt"	the balance of consideration payable by Joy Harvest to Mengxi HT for the acquisition by Joy Harvest of the 49% equity interest in Mengxi Minerals of RMB231.7 million under the Mine Acquisition Agreement
"Mengxi HT"	Inner Mongolia Mengxi Gaoxing High Tech Limited (內蒙古蒙西高新技術集團有限公司)
"Mengxi Minerals"	Inner Mongolia Mengxi Minerals Limited (內蒙古蒙西礦業有限公司), a sino-foreign equity joint venture established in the PRC, 49% equity interest of which is owned by Joy Harvest
"Mine Acquisition Agreement"	the equity transfer agreement entered into between Mengxi HT and Joy Harvest dated 2 November 2007 in relation to the transfer of the 49% equity interest in Mengxi Minerals from Mengxi HT to Joy Harvest, as amended and supplemented by (i) an extension agreement dated 28 December 2007 between Mengxi HT and Joy Harvest; and (ii) a letter agreement dated 10 January 2008 between Mengxi HT and Joy Harvest, which replaced the equity transfer agreement dated 22 August 2007 and entered into by the same parties in relation to the transfer of the 49% equity interest in Mengxi Minerals from Mengxi HT to Joy Harvest
"Mr. Yeap"	Mr. Jonathan Soon P. Yeap

"Oriental Patron" or "Placing Agent"	Oriental Patron Asia Limited, a licensed corporation to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the placing agent to the Share Placing and the CB Placing
"Placing Convertible Bonds"	the convertible bonds with an aggregate principal amount of up to HK$750 million, bearing interest at 1.0 % per annum, to be issued by the Company in accordance with the provisions of the CB Placing Agreement and the Subscription Agreement
"Placing Share(s)"	up to 108 million new Shares to be placed by and on behalf of the Placing Agent as agent of the Company pursuant to the Share Placing Agreement
"PRC" or "China"	the People's Republic of China, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Coastal Kingfold
"Raw Coal"	the raw coal as extracted from the Target Mine and all related coal products and derivative products
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	50,000 shares of US$1.00 each in the issued share capital of Imare
"Sale Loan"	the aggregate amount of all advances, loans and indebtedness which shall remain due or owing from Joy Harvest to Grand Pacific as at the Acquisition Completion Date
"Sale and Purchase Agreement"	the sale and purchase agreement dated 1 February 2008 and entered into among Coastal Kingfold as purchaser, Grand Pacific as vendor and GGYFL as guarantor of Grand Pacific in relation to the Acquisition, as amended and supplemented by the supplemental agreement dated 25 April 2008 entered into among Coastal Kingfold, Grand Pacific and GGYFL
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shangco"	Shanghai Xicheng Enterprise Limited (上海熙誠實業有限公司), a company incorporated in the PRC and is the parent company of Yiou Auto

"Shangco Entitlement"	the sum of RMB99,000,000 expressed to payable by Joy Harvest and/or Treasure Success to Shangco under the Supplemental Management Services Agreement
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the issued Share(s)
"Share Option(s)"	the share option(s) granted by the Company on 19 February 2008 entitling the share option holders to subscribe for up to 21,600,000 new Shares at a subscription price of HK$0.69 per Share
"Share Placee(s)"	the subscribers of the Placing Shares pursuant to the terms of the Share Placing Agreement
"Share Placing"	the placing of the Placing Shares pursuant to the Share Placing Agreement
"Share Placing Completion"	the completion of the Share Placing Agreement
"Share Placing Agreement"	the conditional placing agreement dated 1 February 2008 entered into between the Company and the Placing Agent, as amended and supplemented by the supplemental agreement dated as of 25 April 2008 entered into between the Company and the Placing Agent
"sq. km."	square kilometers
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the agreement dated 26 March 2008 entered into between the Company and GGYFL in relation to the subscription by GGYFL of the Subscription Bonds, as amended and supplemented by the supplemental agreement dated 25 April 2008 entered into between the Company and GGYFL
"Subscription Bonds"	the Placing Convertible Bonds in the aggregate principal amount of HK$540 million conditionally agreed to be subscribed by GGYFL pursuant to the Subscription Agreement
"Supplemental Management Services Agreement"	the agreement dated 12 November 2007 entered into by and among (i) Joy Harvest; (ii) Shangco; (iii) Yiou Auto; and (iv) Treasure Success, expressed to be supplemental to the Management Services Agreement

"Supply Agreement"	the supply agreement dated 1 February 2008 and entered into between Mengxi Minerals and Mengxi Chemical in relation to the supply of the Raw Coal by Mengxi Minerals to Mengxi Chemical
"substantial shareholder"	as such term is defined under the GEM Listing Rules
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong as in force from time to time
"Target Mine"	the coal mine located in Inner Mongolia, the PRC, the mining rights of which is owned by Mengxi Minerals
"Treasure Success"	Treasure Success Investment Limited, a company incorporated in Hong Kong, which owned the entire equity interest of Joy Harvest as at the Latest Practicable Date. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Treasure Success Investment Limited, its ultimate beneficial owners and their respective associates are independent of and not connected persons of the Company
"Treasure Success SPA"	the agreement dated 28 August 2007 entered into by and among (i) Treasure Success as vendor; (ii) Zhang Guoqi and Yang Geyan as warrantors; and (iii) JHI as purchaser concerning the acquisition by JHI of the entire issued share capital of Joy Harvest, as the same may be amended, supplemented and/or novated from time to time. As at the Latest Practicable Date, both Grand Pacific and JHI are wholly-owned subsidiaries of GGYFL (the guarantor to the Sale and Purchase Agreement). It is expected that after completion of the Treasure Success SPA, the legal and beneficial ownership in the entire issued share capital of Joy Harvest will be transferred to Imare, which is wholly-owned by Grand Pacific
"US$"	United States dollars, the lawful currency of the United States of America
"Yiou Auto"	Shanghai Yiou Auto Sales Limited (上海意歐汽車銷售有限公司), being the 21% owner of Mengxi Minerals
"%"	per cent.

The English names of the companies established in the PRC in this circular are for identification purposes only. In case of inconsistency, the Chinese names prevail.

In this circular, US$ and RMB have been converted into HK$ at the rates of US$1 = HK$7.8 and RMB1 = HK$1.0678 respectively for illustration purpose only. No representation is made that any amounts in RMB or US$ or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.

CHALLENGER GROUP HOLDINGS LIMITED
挑戰者集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8203)

Executive Directors:
TSE Chun Sing *(Chairman)*
WU Kam Hung
Soon P. YEAP

Independent non-executive Directors:
LIEW Swee Yean
SIU Siu Ling, Robert
WONG Yun Kuen

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business:
Unit A1,
6/F, Mai Hing Industrial Building,
16-18 Hing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

30 April 2008

To the Shareholders, and for the information only, the holders of the Share Options

Dear Sir/Madam,

(I) VERY SUBSTANTIAL ACQUISITION IN RELATION TO IMARE COMPANY LIMITED;
(II) PLACING OF CONVERTIBLE BONDS;
(III) SUBSCRIPTION OF HK$540 MILLION PLACING CONVERTIBLE BONDS;
(IV) PLACING OF NEW SHARES;
(V) CONTINUING CONNECTED TRANSACTION;
AND
(VI) RE-ELECTION OF DIRECTOR

1. INTRODUCTION

The Company announced on 18 February 2008, among others, that:

(i) On 1 February 2008, Coastal Kingfold, Grand Pacific and GGYFL (as guarantor of Grand Pacific) entered into the Sale and Purchase Agreement whereby Coastal Kingfold has agreed to purchase, and Grand Pacific has agreed to sell the Sale Shares and the Sale Loan for an aggregate consideration of up to HK$900 million;

* *For identification purpose only*

(ii) On 1 February 2008, the Company and Oriental Patron entered into the CB Placing Agreement, pursuant to which Oriental Patron undertakes to use its best endeavours to procure, on a best efforts basis, no less than six CB Subscribers to subscribe for the Placing Convertible Bonds for cash in a principal amount of up to HK$750 million;

(iii) On 1 February 2008, the Company and the Placing Agent entered into the Share Placing Agreement pursuant to which the Company has agreed to place, through the Placing Agent and on a best effort basis, the Placing Shares at a price of HK$0.80 per Placing Share to no less than 6 individual, corporate and/or institutional investors;

(iv) On 1 February 2008, Mengxi Minerals and Mengxi Chemical entered into the Supply Agreement pursuant to which Mengxi Minerals shall for a term of three years effective upon the Acquisition Completion Date, supply, on an exclusive basis, and Mengxi Chemical shall purchase the Raw Coal extracted by Mengxi Minerals from the Target Mine. At the end of each three-year term, Mengxi Chemical has the right (but not the obligation) to renew the Supply Agreement for a further term of three years; and

(v) The Company has appointed Mr. Jonathan Soon P. Yeap as the chief executive officer of the Company and an executive Director with an effective date of 1 February 2008 and 21 February 2008 respectively.

On 1 April 2008, the Company announced that on 26 March 2008, the Company and GGYFL entered into the Subscription Agreement pursuant to which the Company conditionally agreed to issue and GGYFL conditionally agreed to subscribe for the Subscription Bonds in the aggregate principal amount of HK$540 million.

GEM Listing Rules Implications

Based on the applicable ratios set forth in Chapter 19 of the GEM Listing Rules, the Acquisition constitutes a very substantial acquisition under the GEM Listing Rules for the Company and hence, is subject to the approval of the Shareholders. The Stock Exchange considers Gold Master has an interest in the Acquisition and hence Gold Master, its ultimate beneficial owners and their respective associates shall abstain from voting on the relevant resolutions in respect of the Sale and Purchase Agreement and the CB Placing Agreement. To the best of the Directors' knowledge, information, belief and after having made all reasonable enquiries, save as disclosed in the paragraph headed "Information on Grand Pacific" of this circular, no Shareholder has an interest in the Acquisition.

Mengxi HT holds 30% of the equity interests in each of Mengxi Minerals and Mengxi Chemical. Upon the Acquisition Completion, Mengxi Chemical will become a non-wholly owned subsidiary of the Company and thus Mengxi HT will become a connected person of the Company at subsidiary level. Thus, the continuing transaction pursuant to the Supply Agreement entered into between Mengxi Minerals and Mengxi Chemical constitute a continuing connected transaction for the Company under the GEM Listing Rules.

The Directors expect that the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the supply of the Raw Coal under the Supply Agreement will, on an annual basis, be more than 2.5% and the annual consideration is expected to be more than HK$10 million. Hence, upon the Acquisition Completion, the continuing supply of the Raw Coal pursuant to the Supply Agreement will constitute non-exempt continuing connected transactions for the Company.

The Supply Agreement is therefore subject to the reporting, announcement and independent Shareholders' approval by way of poll requirements under Rules 20.45 to 20.54 of the GEM Listing Rules and the requirements of annual review of continuing connected transactions under Rules 20.37 to 20.40 of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (1) no Shareholder has interest in the Supply Agreement; and (2) no Shareholder shall be required to abstain from voting on the relevant resolution.

General

The purpose of this circular is to provide you with information or further details of (i) the Sale and Purchase Agreement; (ii) the Supply Agreement (including the Annual Caps); (iii) the CB Placing Agreement; (iv) the Subscription Agreement; (v) the Share Placing Agreement; (vi) the re-election of Mr. Yeap as a Director; (vii) the recommendation of the Independent Board Committee to the independent Shareholders in respect of the Supply Agreement (including the Annual Caps); (viii) the advice from Ample Capital in respect of the Supply Agreement (including the Annual Caps); and (ix) a notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

Parties

Purchaser	:	Coastal Kingfold
Seller	:	Grand Pacific
Guarantor of the seller	:	GGYFL

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the subscription of the exchangeable bond by GGYFL issued by Gold Master (details of which are disclosed under the section headed "Information on Grand Pacific" below) and the subscription of the Subscription Bonds by GGYFL issued by the Company (details of which are disclosed under the section headed "The Subscription Agreement dated 26 March 2008" below), Grand Pacific, GGYFL and their respective ultimate beneficial owners are third parties independent of the Company and not connected persons of the Company.

Assets to be acquired

(1) the Sale Shares: the 50,000 issued shares of US$1.00 each in the share capital of Imare, being the entire issued share capital of Imare; and

(2) the Sale Loan

The Sale Shares and the Sale Loan to be acquired by Coastal Kingfold, pursuant to the terms and conditions of the Sale and Purchase Agreement, shall be free from all mortgage, charge, pledge, lien, hypothecation or other encumbrance, priority or security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement whatsoever over or in the Sale Shares and the Sale Loan.

Upon the Acquisition Completion, Imare will become a wholly-owned subsidiary of the Company.

Consideration

The maximum aggregate consideration for the Sale Shares and the Sale Loan is HK$900 million and is payable as at the Acquisition Completion Date in the manner as set out below:

	HK$ million
Consideration Convertible Bonds *(Note 1)*	170
Consideration Shares *(Note 2)*	184
Cash *(Note 3)*	546
	900

Notes:

1. The principal terms of the Consideration Convertible Bonds are set out under the section headed "Principal terms of the Convertible Bonds" in this circular.

2. The 230 million Consideration Shares are to be issued at HK$0.80 per Share.

3. The cash consideration of HK$546 million payable to the Grand Pacific shall be reduced by the amount of Mengxi Debt (if any) as at the Acquisition Completion Date. The original amount of the Mengxi Debt was RMB231.70 million (equivalent to approximately HK$247.41 million), of which approximately US$5.3 million (equivalent to approximately HK$41.34 million) and HK$20 million has been settled in January 2008 and February 2008 respectively. As at the Latest Practicable Date, the amount of Mengxi Debt is approximately RMB174 million (equivalent to approximately HK$186 million). The cash consideration shall be financed by the net proceeds from the issuance of the Placing Convertible Bonds.

Conditions precedent

Pursuant to the Sale and Purchase Agreement, the Acquisition Completion is conditional upon the fulfillment or to the applicable extent, the waiver of, inter alia, the following conditions:

(1) the Purchaser having carried out the due diligence review and being satisfied with the results thereof and further that the Target Mine has an approximately 99.60 million tonnes reserve of coal which can produce 1.2 million tonnes of raw coal annually;

(2) the delivery by Grand Pacific to the Purchaser of a legal opinion issued by a PRC firm of lawyers appointed by Grand Pacific and reasonably acceptable to the Purchaser (at the cost of Grand Pacific) and addressed to the Purchaser in respect of each of the JV Companies, its business and assets, including the Target Mine, in such form and substance reasonably satisfactory to the Purchaser;

(3) documentary evidence having been provided to the Purchaser that all resources fees, licence fees and other fees required to be paid by Mengxi Minerals prior to the Acquisition Completion Date to the Ministry of Land and Resources of the PRC and/or other governmental authorities in respect of exploration, exploitation, mining, owning and operating the Target Mine, all the fees required to be paid by Mengxi Minerals in obtaining the mining licences (to the extent payable prior to the Acquisition Completion Date) and all

other permits have been fully paid (to the extent payable prior to the Acquisition Completion Date) and there is no outstanding fees;

(4) the delivery by Grand Pacific to the Purchaser of the audited accounts of Joy Harvest for the year ended 31 December 2007 which shall not be subject to any qualification by the auditors of Joy Harvest and the financial position of Joy Harvest as presented in its audited accounts shall not be materially different from that presented in the unaudited balance sheet of Joy Harvest as at the 31 December 2007 and the unaudited profit and loss account of Joy Harvest for the year ended 31 December 2007 :

(5) (a) all the rights and obligations of JHI under the Treasure Success SPA having been assigned and transferred to Imare on terms previously approved by the Purchaser; (b) the Treasure Success SPA having been completed such that (i) Imare has become the legal and beneficial owner of the entire issued share capital of and in Joy Harvest free from encumbrances, any third parties rights and adverse interests whatsoever and (ii) Imare shall have no outstanding or further obligations of any nature under or in respect of the Treasure Success SPA;

(6) the Purchaser is satisfied that:

(a) Joy Harvest has been unconditionally and irrevocably released from its obligation to make any payment of the Shangco Entitlement under the Supplemental Management Services Agreement; and

(b) the Shangco Entitlement has been duly paid to Shangco;

(c) Treasure Success has no right to seek any contribution or reimbursement on account of the Shangco Entitlement that Treasure Success has paid to Shangco;

(7) (a) the Mine Acquisition Agreement having been completed, save for payment of the Mengxi Debt (if any), such that Joy Harvest legally and beneficially owns 49% of the equity interest in Mengxi Minerals and 70% of the equity interest in Mengxi Chemical free from encumbrance and notwithstanding existence of the Mengxi Debt (if any);

(b) Mengxi HT and Joy Harvest having entered into a binding agreement deferring the full payment of the Mengxi Debt to a date falling after the Acquisition Completion Date and on terms reasonably satisfactory to the Purchaser;

(8) Mengxi HT remaining a joint venture partner of the JV Companies and holding not less 30% of the equity interests in each of the JV Companies;

(9) the CB Placing Agreement becoming unconditional in all respects (save and except any condition requiring the Sale and Purchase Agreement to become unconditional) and having been completed;

(10) the GEM Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares;

(11) the approval by the Shareholders (or, if so required by the GEM Listing Rules, the independent Shareholders) at the EGM of (a) the Sale and Purchase Agreement and the transactions contemplated thereby; (b) the Supply Agreement and the transactions contemplated thereby; (c) the allotment and issue of the Consideration Shares; (d) the issue of the Consideration Convertible Bonds to Grand Pacific and of the Conversion Shares falling to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds, and all other consents and acts required under the GEM Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;

(12) the compliance of any other requirements under the GEM Listing Rules or otherwise of the Stock Exchange or other regulatory authorities or any applicable laws and regulations which requires compliance at any time prior to the Acquisition Completion in relation to the transactions contemplated under the Sale and Purchase Agreement;

(13) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the Sale and Purchase Agreement having been obtained;

(14) from the date of the Sale and Purchase Agreement and at any time before the Acquisition Completion, the representations, warranties and undertakings given by Grand Pacific under the Sale and Purchase Agreement remains true and accurate in all material respect and not misleading in any material respect and no events have occurred that would result in any breach of any warranties or provisions of the Sale and Purchase Agreement by Grand Pacific in any material respects; and

(15) there is no occurrence of (i) any event of material adverse change; nor (ii) any of the events, matters or circumstances referred to in the Sale and Purchase Agreement with respect to any of the JV Companies.

If any of the above conditions has not been fulfilled or waived by the Purchaser on or before 10 June 2008 (instead of 10 May 2008 as disclosed in the Announcement) or such later date as the Purchaser and Grand Pacific may agree in writing, the Sale and Purchase Agreement shall then lapse and no party shall have any claim against or liability to the other party, save in respect of any of the antecedent breaches of the Sale and Purchase Agreement. Pursuant to the Sale and Purchase Agreement, the Purchaser may at its absolute discretion at any time waive in writing any of the conditions (other than those contained in paragraphs (10), (11) and (12) (to the extent they are capable of being waived)). As at the Latest Practicable Date, none of above conditions has been fulfilled and the Purchaser does not have the intention to waive any of the above conditions.

There is no nomination rights granted to Grand Pacific under the Sale and Purchase Agreement or its ultimate beneficial owners and their respective associates. The Company currently has no intention to appoint representative from Grand Pacific, its ultimate beneficial owners and their respective associate as Directors.

Acquisition Completion

Pursuant to the Sale and Purchase Agreement, the Acquisition Completion shall take place on the third Business Day after the fulfillment (or waiver) of the last of the outstanding conditions (other than conditions (14) and (15)) or such other date as the Purchaser, Grand Pacific and GGYFL shall mutually agree in writing. If condition (9) above is not waived by the Purchaser, the Acquisition will lapse if the CB Placing (which is subject to the approval of the Shareholders at the EGM) does not proceed.

Lock up undertaking

Grand Pacific has conditionally and irrevocably undertakes with the Purchaser that:

(1) within a period of 12 months ("**Lock-up Period**") from the Acquisition Completion Date, Grand Pacific will not dispose of any of such Consideration Shares or any interests therein unless:

  (a) such disposal is made with the prior written consent of the Purchaser; or

  (b) if during any 5 consecutive trading days ("**Test Period**") of the Stock Exchange the volume weighted average closing price of the Shares is HK$3.50 each or higher, then Grand Pacific may, within the one trading day next following the end of the Test Period, dispose of up to 10% of the total number of the Shares traded on the last trading day of the Test Period;

(2) Grand Pacific will deposit the Consideration Shares for the entire duration of the Lock-up Period with an escrow agent; and

(3) in the event of any disposal of the Consideration Shares or any interests therein at any time after the expiry of the Lock-up Period, all reasonable steps will be taken by Grand Pacific to ensure that such disposal will not create a disorderly or false market.

Application for listing

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Consideration Shares

The 230 million Consideration Shares represents approximately (i) 42.59% of the existing issued share capital of the Company; and (ii) 29.87% of the issued share capital of the Company as enlarged by the Consideration Shares.

The Consideration Shares shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue including the right to all dividends, distributions and other payments made or to be made the record date for which shall fall on or after the date of such allotment and issue.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought from the Shareholders at the EGM and will be allotted and issued on the Acquisition Completion Date.

The issue price of each Consideration Share of HK$0.80 was arrived at after arm's length negotiation between the Company and Grand Pacific and represents:

(i) a premium of approximately 14.29% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 29.03% to the average closing price per Share of approximately HK$0.62 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 40.35% to the average closing price per Share of approximately HK$0.57 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 1.27% to the closing price of HK$0.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(v) a premium of approximately 545.16% to the unaudited consolidated net assets value per Share of approximately HK$0.124 as at 30 September 2007 ; and

(vi) a premium of approximately 230.58% to the unaudited consolidated net assets value per Share of approximately HK$0.242 as at 30 September 2007 adjusted for the unaudited results for the three-month period from 1 October 2007 to 31 December 2007.

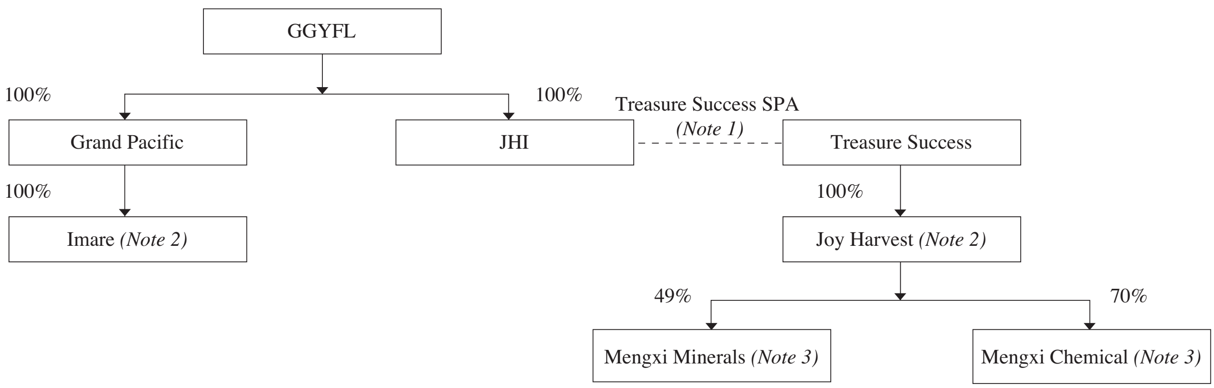
INFORMATION ON THE IMARE GROUP

The principal activity of Imare is investment holding. Imare will wholly own Joy Harvest upon the completion of the Treasure Success SPA. Pursuant to the Treasure Success SPA, JHI has agreed to acquire the entire issued share capital of Joy Harvest. As at the Latest Practicable Date, both Grand Pacific and JHI are the wholly-owned subsidiaries of GGYFL (the guarantor to the Sale and Purchase Agreement). It is currently expected that the parties to the Treasure Success SPA would enter into a novation agreement to the Treasure Success SPA with Imare to the effect that Imare would become a party to the Treasure Success SPA and replace JHI to purchase the entire issued share capital of Joy Harvest. As a result of such novation, the legal and beneficial ownership in the entire issued share capital in Joy Harvest will be transferred to Imare upon completion of the Treasure Success SPA.

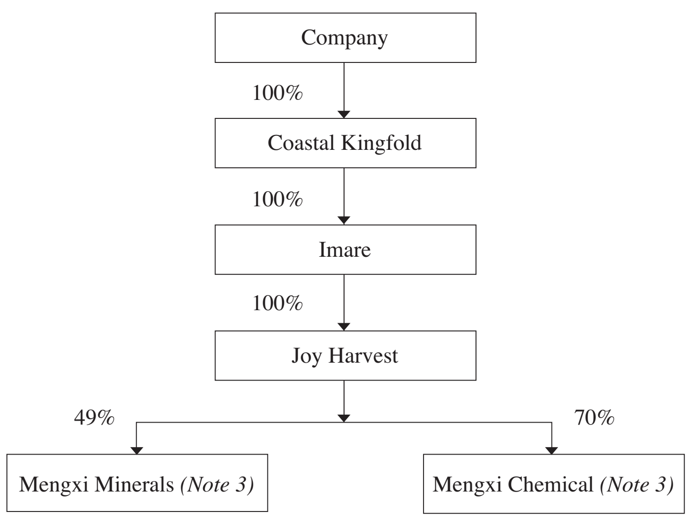
Mr. Yeap was originally appointed by Treasure Success to spear head the acquisition of 49% interest in Mengxi Minerals and the establishment of Mengxi Chemical by Joy Harvest in November 2007. In August 2007, Mr. Yeap induced GGYFL (via JHI) and Treasure Success to enter into the Treasure Success SPA pursuant to which JHI shall acquire the entire interest in Joy Harvest from Treasure Success. Mr. Yeap will receive compensation upon completion of the Treasure Success SPA. Save for the foregoing and information already disclosed in this circular, there is no relationship between Mr. Yeap and the parties to the Sale and Purchase Agreement and their respective ultimate beneficial owners and associates.

The diagrams below sets out of the group structure of Imare as at the Latest Practicable Date and upon the Acquisition Completion:

As at the Latest Practicable Date



Upon the Acquisition Completion



Notes:

1. Pursuant to the Treasure Success SPA dated 28 August 2007 entered into by and among (i) Treasure Success as vendor; (ii) Zhang Guoqi and Yang Geyan as warrantors; and (iii) JHI as purchaser, JHI shall acquire the entire issued share capital in Joy Harvest from Treasure Success.

2. It is a condition precedent to the Sale and Purchase Agreement that (a) all the rights and obligations of JHI under the Treasure Success SPA having been assigned and transferred to Imare on terms previously approved by the Purchaser; (b) the Treasure Success SPA having been completed such that (i) Imare has become the legal and beneficial owner of the entire issued share capital of and in Joy Harvest free from encumbrances, any third parties rights and adverse interests whatsoever; and (ii) Imare shall have no outstanding or further obligations of any nature under or in respect of the Treasure Success SPA.

3. Pursuant to the Management Service Agreement, Joy Harvest has agreed to provide technical and management consultancy services to Yiou Auto in consideration for 99% of its net profits. Mengxi HT and Yiou Auto own 30% and 21% equity interest of Mengxi Minerals respectively and Mengxi HT owns the remaining 30% equity interest of Mengxi Chemical. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) save as disclosed above, Mengxi HT and Yiou Auto are parties independent of the Company and not connected persons of the Company; (ii) Mengxi HT, Yiou Auto, their respective ultimate beneficial owners and associates does not hold any Shares; and (iii) the principal activities of Mengxi HT are the investment in project related to cement, calcine kaolin, nano materials, macromolecule materials and alumina businesses, the exploitation and processing of limestone, as well as technology development and transfer, whereas those of Yiou Auto is the sale of automobiles (not including sedan), motorcycles, car-related accessories and related information consultation, as well as the import and export of products and technology.

Business activities

The principal activity of Joy Harvest is investment holding and the following sets forth a brief description of the business activities of Mengxi Chemical and Mengxi Minerals:

Mengxi Chemical

Mengxi Chemical is currently the only subsidiary of Joy Harvest. It is a sino-foreign equity joint venture established in the PRC on 29 November 2007 by Joy Harvest and Mengxi HT and has a registered capital of RMB80 million and a total investment of RMB200 million. As at the Latest Practicable Date, the registered capital of Mengxi Chemical of RMB80 million has not been paid up. The principal business of Mengxi Chemical is the washing and choosing of mine run coal, the processing of coking coal and coke and their related coal by-products.

It has granted by the Development and Reform Commission of Inner Mongolia Autonomous Region the right to own, build and operate a beneficiation plant of annual production capacity of 1.5 million tonnes and a coking coal plant of annual production capacity of 0.80 million tonnes situated at a site in the 鄂爾多斯市蒙西高新技術工業園 (Mengxi New High Technology Industrial Park at Erduosi City), Inner Mongolia Autonomous Region and to sell the resulting products. Mengxi Chemical is expected to commence commercial operation 6 months upon the Acquisition Completion.

Mengxi Minerals

Mengxi Minerals is an associated company of the Joy Harvest. It was established as a domestic enterprise in the PRC on 3 February 2005 and was re-registered as a sino-foreign equity joint venture on 30 November 2007 following the transfer of 49% and 21% of its registered capital from Mengxi HT to Joy Harvest and Yiuo Auto respectively. It has a registered capital of RMB50 million and a total investment of RMB125 million. The principal business of Mengxi Minerals is to prepare to build the early stage infrastructure for sale of coal, exploitation of sagger, washing and choosing of mine run coal and the processing of coking coal and coke.

The registered capital of RMB50 million of Mengxi Minerals has been fully paid up when it was a domestic enterprise. According to the applicable PRC laws, when the economic nature of Mengxi Minerals changed to a sino-foreign equity joint venture following the acquisition of 49% equity interest in Mengxi Minerals from Mengxi HT by Joy Harvest, Joy Harvest, as a foreign investor, has to pay acquisition consideration to Mengxi HT, which will be regarded as "paying up the registered capital in foreign currency" on the part of Joy Harvest. Given that Joy Harvest has not yet fully paid the acquisition consideration to Mengxi HT, the registered capital of Mengxi Minerals is regarded as outstanding as at the Latest Practicable Date.

The existence of coal reserve in the Target Mine has been confirmed after exploration work. Save for the exploration work, no exploitation work has commenced. The mining licence (採礦許可証) of the Target Mine was granted by the Ministry of Land and Resources of Inner Mongolia Autonomous Region for the right of exploitation of the Target Mine until August 2016. While the mining licence of the Target Mine confers Mengxi Minerals the right of exploitation of the Target Mine up to August 2016, under the relevant PRC laws, the ownership of the Target Mine still vests in the PRC government but not Mengxi Minerals. However, this would not affect the right of exploitation conferred to Mengxi Minerals under the mining licence of the Target Mine. The mining licence enables Mengxi Minerial to commence exploitation on a trial basis after it has made filing of application for safety production permit (安全生產許可証) with the State Administration of Coal Mine Safety Supervision Bureau ("**SACM**"). The commercial operation of the Target Mine is subject to (i) a safety production permit issued by relevant local office of the SACM; and (ii) the coal production permit (煤炭生產許可證) granted by 內蒙古煤炭工業局 (Coal Industry Bureau of Inner Mongolia Autonomous Region) or its delegates.

The Target Mine has a site area of approximately 7.946 sq. km. located in the Zhou Zi Shan Kulihuoshatu Coal Mine, Inner Mongolia Autonomous Region, the PRC. According to the information represented by Grand Pacific, the estimated coal reserves of the Target Mine are approximately 99.60 million tonnes as at 30 November 2007. The amount of the coal reserve is substantiated by a certificate issued by the Ministry of Land and Resources of Inner Mongolia Autonomous Region based on an assessment conducted by the 內蒙古自治區礦產資源儲量評審中心(Mining Resources Reserve Assessment Centre of Inner Mongolia Autonomous Region).

Financial information

Imare was incorporated on 2 January 2008, it has not carried out any business activities. Based on the audited accounts of Imare for the period from 2 January 2008 (being its date of incorporation) to 31 January 2008, the net asset value of Imare as at 31 January 2008 was approximately HK$0.39 million. The audited net profit before and after taxation of Imare for the period from 2 January 2008 (being its date of incorporation) to 31 January 2008 were both nil.

Based on the audited consolidated accounts of the Joy Harvest Group for each of the two years ended 31 December 2007, the net asset/(deficit) values of the Joy Harvest Group as at 31 December 2006 and 31 December 2007 were approximately HK$(35,585) and HK$127.02 million respectively. The audited consolidated net (loss)/profit before and after taxation and minority interests of the Joy Harvest Group for each of the two years ended 31 December 2007 were HK$(6,768) and HK$(6,768), and approximately HK$123.54 million and HK$123.54 million respectively.

Report from RSM Nelson Wheeler on the Joy Harvest Group and its opinion

In connection with the Acquisition which constitutes a very substantial acquisition under the GEM Listing Rules for the Company, the Company has engaged RSM Nelson Wheeler ("RSM") to prepare, among others, the accountants' report on the financial information (the "Financial Information") of the Joy Harvest Group for each of the three years ended 31 December 2007 (the "Relevant Periods") pursuant to Rule 19.67(4)(a)(i) of the GEM Listing Rules, whose scope of work include examination of the unaudited management accounts of all companies of the Joy Harvest Group during the Relevant Periods, prepared by the directors of respective companies of the Joy Harvest Group, and to form an independent opinion as to whether the Financial Information gives a true and fair view of the state of affairs of Joy Harvest and of the Joy Harvest Group as at 31 December 2005, 2006 and 2007 and of the Joy Harvest Group's results and cash flows for the Relevant Periods.

Shareholders and investors should note that the accountants' report of the Joy Harvest Group as set out in Appendix III to this circular (the "Joy Harvest Group Audit Report") contains a disclaimer of opinion as to whether the Financial Information give a true and fair value of the state of the affairs of Joy Harvest Group and of the Joy Harvest as at 31 December 2007 and of the Joy Harvest Group's results and cash flows for the year ended 31 December 2007. The disclaimer opinion stems from limitation in the evidence provided to RSM in relation to the net fair value of

identifiable assets, liabilities and contingent liabilities of Mengxi Minerals, an associated company of Joy Harvest, as at the date of acquisition to satisfy themselves as the share of net assets of Mengxi Minerals as at 31 December 2007 and the excess of the Joy Harvest Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of Mengxi Minerals for the year ended 31 December 2007.

The Directors noted from the Joy Harvest Group Audit Report, amongst other matters, that:

(a) the Joy Harvest Group recorded in its consolidated financial statements (i) as at 31 December 2007, the share of net assets of the Joy Harvest Group's 49% interest in Mengxi Minerals was approximately HK$374.48 million (equivalent to approximately RMB350.70 million); and (ii) a gain of approximately HK$127.07 million (equivalent to approximately RMB119 million) for the year ended 31 December 2007 representing the excess of Joy Harvest Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of approximately RMB350.70 million (equivalent to approximately HK$374.48 million) over the cost of acquisition of RMB231.7 million (equivalent to approximately HK$243.89 million);

(b) based on the asserted fair value of RMB350.70 million (comprising the original acquisition cost of RMB231.70 million payable by Joy Harvest under the Mine Acquisition Agreement and the additional acquisition premium of RMB119 million contracted between Treasure Success and the subsequent purchaser for the entire issued share capital of Joy Harvest, whose major assets was its 49% equity interest in Mengxi Minerals which owns the mining rights of the Target Mine) provided to RSM, RSM was not satisfied as to the balances of the (i) and (ii) as mentioned in paragraph (a) above due to the asserted fair value was not based on techniques developed in accordance with HKAS 38 for estimating the fair value of intangible assets indirectly which include (i) applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from from licensing the intangible asset to another party in an arm's length transaction (as in the 'relief from royalty' approach); or (ii) discounting estimated future net cash flows from the asset (the "Techniques"); and

(c) because of the significance of the possible effect of the limitation in evidence available to RSM, they are unable to form an opinion as to whether the Financial Information give a true an fair view of the state of the affairs of Joy Harvest and of the Joy Harvest Group as at 31 December 2007 and of the Joy Harvest Group's results and cash flows for the year ended 31 December 2007.

The Directors also noted from note 11 to the Joy Harvest Group Audit Report that the share of net fair value of the Joy Harvest Group's 49% interest in Mengxi Minerals of RMB350.70 million (equivalent to approximately HK$374.48 million) was based on aggregate sum of (i) the original acquisition cost of RMB231.70 million (equivalent to approximately HK$243.89 million) payable by Joy Harvest under the Mine Acquisition Agreement; and (ii) the additional acquisition premium of RMB119 million (equivalent to approximately HK$127 million) contracted between Treasure Success and the subsequent purchaser for the entire issued share capital of Joy Harvest, whose

major assets was its 49% equity interest in Mengxi Minerals which owns the mining rights of the Target Mine. The Directors consider that the aggregate price of approximately HK$374.48 million is a value contracted between two knowledgeable, willing parties on arm's length basis provide a relevant reference for the fair value of the Joy Harvest Group's 49% interest in Mengxi Minerals as at 31 December 2007.

The director of Joy Harvest advised that Joy Harvest would not apply techniques stated in HKAS 38 to value the intangible assets of the associate as Joy Harvest has limited human resources to handle this and Joy Harvest considered that the consideration for disposal of the entire issued share capital of Joy Harvest contracted between Treasure Success and its subsequent purchaser was reasonable to determine the fair value of the mining rights of the Target Mine owned by Mengxi Minerals.

According to RSM, the disclaimer of opinion as set out in the Joy Harvest Group Audit Report will not lead to the qualification/modification/disclaimer of audit opinion of the Group for the year ended 31 March 2008 as the Acquisition was not yet completed at 31 March 2008. However, if the Company does not apply relevant methods such as the Techniques to assess the fair value of Imare Group (i.e. Imare Company Limited, its subsidiaries and its associate) upon the Acquisition Completion, the disclaimer opinion stated in the Joy Harvest Group Audit Report will lead to the qualification/modification/disclaimer of audit opinion of the Group on the fair value of the intangible assets for the subsequent financial years upon Acquisition Completion.

Upon the Acquisition Completion when the Group has full control over Imare and Joy Harvest as well as significant influence on Mengxi Minerals, the Directors shall assess on an annual basis whether there is any indication that the fair value of the Joy Harvest Group is impaired with reference to both internal and external sources of information, the Techniques or other techniques acceptable by HKFRS. External source of information refers to earnings multiples of comparable companies listed on the Stock Exchange while internal source of information refers to financial projections of Joy Harvest.

Based on the above, the Directors (including the independent non-executive Directors) consider that the information contained in this circular, including the accountants' report of Imare and the Joy Harvest Group Audit Report (in which RSM has issued a disclaimer opinion for the year ended 31 December 2007) as set out in Appendices II and III to this circular, provide sufficient information to enable the Shareholders to make an informed assessment on the Acquisition and the issue of Convertible Bonds. The Directors (including the independent non-executive Directors) confirm that the Company has complied with Rule 17.56 of the GEM Listing Rules in all material respect, including the disclaimer of opinion as contained in the Joy Harvest Group Audit Report, the Acquisition and the issue of the Convertible Bonds.

The Directors (including the independent non-executive Directors) are of the view that the disclaimer of opinion of the Joy Harvest Group Audit Report by itself will not alter the rights and obligations under the Supply Agreement which grants Mengxi Chemical the exclusive right to purchase the estimated coal reserves of 99.60 million of the Target Mine owned by Mengxi Minerals, the right to mine the Target Mine and earnings prospects of the Imare Group which are the key considerations for the Acquisition.

INFORMATION ON GRAND PACIFIC

Grand Pacific is an investment holding company and is wholly owned by GGYFL. GGYFL is an alternative investment fund managed by Global Emerging Markets Limited. Global Emerging Markets Limited is a US$2.7 billion alternative investment group that manages a diverse portfolio of investments focused on emerging markets.

On 10 January 2008, GGYFL subscribed for an exchangeable bond ("**Exchangeable Bond**") issued by Gold Master, which holds 81,000,000 Shares (representing 15% of the total issued share capital of the Company) as at the Latest Practicable Date. The United States dollar denominated Exchangeable Bond (subject to exchange rate movements) is exchangeable for up to 67,200,000 Shares pursuant to the terms and conditions therein. As advised by JHI and Gold Master, a loan in the sum of US$5,600,000 (equivalent to approximately HK$43.68 million) (equal to the principal amount of the Exchangeable Bond paid to Gold Master) was advanced by Gold Master to JHI on or about 10 January 2008. JHI may use part of the cash portion of the consideration for the Acquisition to repay the above loan due to Gold Master.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Grand Pacific, GGYFL and Global Emerging Markets Limited and their respective associates are independent of and not connected persons of the Company and not acting in concert with any other Shareholders.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company, and the existing subsidiaries of the Company are principally engaged in (i) the business of on-line distribution of office supplies and equipments; and (ii) auto servicing businesses.

As mentioned in the annual report of the Company for the year ended 31 March 2007, the Company has been facing keen competition in the office furniture industry. In this regard and as mentioned in the announcements of the Company dated 8 May 2007, 9 May 2007, 14 May 2007, 31 May 2007 and 7 June 2007, the Company has been contemplating various corporate exercises involving possible acquisitions of new businesses and the disposal of certain business operations of the Group for the purpose of diversifying and changing the business portfolio of the Group. Since June 2007, the Group had acquired controlling interest in (i) Global On-Line Distribution Limited, an on-line distributor of office supplies and equipments (including re-manufactured ink and toner cartridges, USB webcam, digital camera, global navigation system etc.); and (ii) Long Capital Development Limited, which owns the auto servicing businesses which include the provision of professional auto detailing service (i.e. automotive cosmetics and restyling service), comprehensive auto repairing and organised membership service, well-established and organised membership service, 24-hour towing service and auto detailing franchise operation service under its the brand name "CHALLENGER". The Group completed the disposal of its entire furniture operation in October 2007.

The Directors are of the view the Acquisition represents an investment opportunity for the Group to diversify into the coking coal processing business and strengthen the Group's earnings base. Due to the rapid growth and development in the Chinese economy, strong demand in coal and coke products is expected to continue in the foreseeable future. The Directors are confidence that the Acquisition could benefit from the rapid and continuing growth of the economy of China. Mr. Yeap, the current chief executive officer of the Company, has substantial experience in energy (including coal) business (whose biographical details are disclosed under the section headed "Re-election of Director" in this circular). The Company is confident that with Mr. Yeap as the chief executive officer of the Company, the Company will have sufficient expertise in running the business of the Imare Group.

BASIS OF THE CONSIDERATION

The consideration for the Sale Shares and the Sale Loan was determined after arm's length negotiations between the Company and Grand Pacific with reference to the following factors:

- the Supply Agreement enabling Mengxi Chemical to secure an exclusive supply of the Raw Coal from the Target Mine which has an estimated reserves of approximately 99.60 million tonnes of coal;

- based on renewable exclusive right to purchase the whole of estimated reserves of 99.60 million tonnes of coal and the maximum consideration of HK$900 million, the consideration per tonne of coal translates to approximately HK$9.04;

- the mining rights of the Target Mine having been obtained by Mengxi Minerals;

- earnings prospects of the Imare Group;

- the valuation of Hong Kong listed coking coal producers relative to their respective estimated coal reserves; and

- the principal amount of the Sale Loan on dollar to dollar basis, which amounted to approximately US$5.6 million (equivalent to approximately HK$43.68 million) as at the Latest Practicable Date.

No valuation of the mining rights of the Target Mine has been conducted by the Company.

The Company has used the listed companies being classified under coal sector of the Hang Seng Index Industry Classification System (the "**Comparables**") to calculate the ratio of the market capitalization of each of the Comparables as at 1 February 2008 (being the date of the Sale and Purchase Agreement) relative to their estimated coal reserves/resources under control (the "**Ratio**"):

Company Name **(Stock code)**	**Market capitalization as at 1 February 2008** *(HK$ million)* **[A]**	**Estimated coal reserves/resources controlled** *(million tonnes)* **[B]**	**The Ratio** **(=[A]/[B])**
Mongolia Energy Corporation Limited (0276)	26,844	460.26	58.32
China Shenhua Energy Company Limited (1088)	841,167	14,863	56.59
Yanzhou Coal Mining Company Limited (1171)	74,366	3,398.70	21.88
Hidili Industry International Development Limited (1393)	25,462	178.93	142.30
China Coal Energy Company Limited (1898)	285,707	3,471	82.31
Average			72.28
Maximum			142.30
Minimum			21.88

Sources :

(1) The closing prices of each of the Comparables as at 1 February 2008 are quoted from the daily quotation sheet of the Stock Exchange.

(2) Market capitalization refers to the closing price of each of the Comparables as at 1 February 2008 multiplied by their respective number of shares outstanding as disclosed in their respective latest published annual report or interim report published before 1 February 2008, whichever is later.

(3) The sources of the estimated coal reserves/resources data for the above listed companies are summarized as follows:

Company Name (Stock Code)	**Source of information**
Mongolia Energy Corporation Limited (0276)	Announcement dated 9 January 2008
China Shenhua Energy Company Limited (1088)	Interim report for the six months ended 30 June 2007
Yanzhou Coal Mining Company Limited (1171)	English version of the website www.yanzhoucoal.com.cn
Hidili Industry International Development Limited (1393)	Summary of coal reserve estimates dated 31 March 2007, extracted from the prospectus dated 10 September 2007
China Coal Energy Company Limited (1898)	Interim report for the six months ended 30 June 2007

As shown in the above table, the Ratio of the Comparables ranged from approximately 21.88 to 142.30, with an overall average of 72.28.

In light of the range of Ratios for the Comparables, the Directors consider the consideration of approximately HK$9.04 per tonne (which is translated from the renewable exclusive right to purchase the whole of estimated reserves of 99.60 million tonnes of coal under the Supply Agreement and the maximum consideration of HK$900 million under the Acquisition) is fair and reasonable as far as the Company is concerned.

While the Ratios of the Comparables may serve as a reference to the reasonableness of the maximum consideration of HK$900 million payable for the Acquisition (which amongst other assets, include 49% indirect ownership in the capital of Mengxi Minerals), the Directors would like to highlight the fact that upon the Acquisition Completion, unlike the coal mining companies selected under the Comparables for calculating the Ratios, the Company will not be able to exercise management control over the operation of the Target Mine.

The Directors consider that, as compared to market price of approximately RMB260 per tonne in January 2008 (approximate to the date of the Sale and Purchase Agreement) as quoted from the website of 中國煤炭價格網 (www.coalprice.cn), the HK$9.04 per tonne translated from the maximum consideration for the Acquisition of HK$900 million for the Group's exclusive right to purchase the Raw Coal pursuant to the Supply Agreement is fair and reasonable as far as the Company is concern.

The Directors consider that the Sale and Purchase Agreement was entered into on normal commercial terms and in the ordinary course of business of the Group, and that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

The Acquisition will be financed as to (1) approximately HK$546 million from the total net proceeds from the CB Placing of a maximum amount of HK$750 million; (2) approximately HK$170 million from the issue of the Consideration Convertible Bond; and (3) the remaining approximately HK$184 million from the issue of the Consideration Shares.

The Directors has considered various ways of raising funds other than Convertible Bonds and Share Placing, such as bank borrowings, rights issue and open offer. However, the Directors consider that such other methods of financing would be less preferable and effective than Convertible Bonds and the Share Placing in view of the Group's existing business scale, the size of new capital to be raised, cost and time required for other funding arrangements such as rights issue, open offer and bank borrowings and immediate dilution of existing Shareholders' interest if financing is solely by net proceeds from the Share Placing.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon the Acquisition Completion, Imare will become a wholly-owned subsidiary of the Company and accordingly will also wholly own the Joy Harvest Group. The financial statements of the Imare Group will be consolidated to those of the Group. The associated company of the Joy Harvest Group, namely Mengxi Minerals, will become an associated company of the Company whose financial statements will be equity accounted for in the financial statements of the Group.

Goodwill

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, a goodwill of approximately HK$446.27 million would arise as a result of the Acquisition. The goodwill of approximately HK$446.27 million represents the excess the consideration for the Acquisition and the cost directly attributable to the Acquisition totaling approximately HK$807.55 million over the net fair value of the Group's 100% share of the identifiable assets, liabilities and contingent liabilities of the Joy Harvest Group of approximately HK$361.28 million.

Earnings

Based on the unaudited pro forma consolidated income statement of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated net loss of the Enlarged Group immediately upon the Acquisition Completion was approximately HK$70.23 million, as compared to the audited consolidated net profit of the Group of approximately HK$15.87 million before the Acquisition

Completion. The change from a net profit before the Acquisition Completion to the net loss immediately after the Acquisition Completion is mainly due to the effect of finance costs of the Convertible Bonds as if it had been issued on 1 April 2006 comprising (i) the pro rata allocation of placing fee of approximately HK$10 million to its derivative component; and (ii) effective interest expenses of approximately HK$76.09 million for its liability component.

Net tangible asset

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, the Group has audited consolidated net tangible assets attributable to the Shareholders of approximately HK$55.28 million before the Acquisition Completion and the Enlarged Group had an unaudited consolidated pro forma consolidated net tangible deficit of approximately HK$372.53 million immediately upon the Acquisition Completion. The change from a net tangible asset of the Group before the Acquisition Completion to a net tangible deficit of the Enlarged Group immediately upon the Acquisition Completion is mainly due to the net effect of (i) the recognition of goodwill of approximately HK$446.27 million arising from the Acquisition; (ii) the increase in shareholder's equity by HK$27.60 million arising from issue of the 230 million Consideration Shares; and (iii) pro rata allocation of placing commission of approximately HK$9.15 million expensed in the period for the derivative component of Placing Convertible Bonds as if it had been issued on 31 March 2007.

Assets and liabilities

Based on the unaudited pro forma consolidated balance sheet of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma consolidated total assets of the Enlarged Group immediately upon the Acquisition Completion was approximately HK$1,123.06 million, as compared to the audited consolidated total assets of the Group of approximately HK$143.17 million before the Acquisition Completion. The unaudited pro forma consolidated total liabilities of the Enlarged Group immediately upon the Acquisition Completion was approximately HK$1,048.99 million, as compared to audited consolidated total liabilities of the Group before the Acquisition Completion of approximately HK$87.55 million.

RISK FACTORS

Possible risk factors which may be faced by the Company are as follows:

Investments in new business

The Acquisition constitutes an investment in the new business sector, namely the processing and sale of coal products such as coking coal, coke and its by-products. The new business, coupled with the regulatory environment, may pose significant challenges to the Company's administrative, financial and operational resources. Since the Company does not have significant experience in the new business, it is not in a position to assure the timing and amount of any return or benefits that may be received from the new business. If any coal processing projects, in which the Company attempts to develop, does not progress as planned, the Company may not recover the funds and resources to be spent, and this may adversely affect the Company's financial position.

Cyclical nature of coal markets and fluctuations in coal prices

As a significant percentage of the revenue of the new business will be derived form coal and coal-related operations, part of the Company's future business and results of operations may dependent on the domestic and international supply of and demand for coal. The fluctuations in supply and demand are caused by numerous factors beyond the Company's control, which include but not limited to:

(i) Global and domestic economic and political conditions and competition from other energy sources; and

(ii) The rate of growth and expansion in industries with high coal demand, such as steel and power industries.

There is no assurance that the international demand for coal and coal-related products will continue to grow, or that the international demand for coal and coal-related products will not experience excess supply.

Policies and regulations

The new business is subject to extensive governmental regulations, policies and controls. There can be no assurance that the relevant government will not change such laws and regulations or impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations in the mine development and coal production projects may adversely affect the Company.

Geographical risk

The Company is entering a new business in Inner Mongolia, which the Company currently does not have any business in. There can be a risk relates to the likelihood that changes in the business environment will occur that reduce the profitability of doing business in Inner Mongolia. The change of economic conditions in Inner Mongolia may adversely affect the Company.

Environmental protection policies

The coal processing business is subject to environmental protection law and regulations in the PRC. If the Company fails to comply with existing or future environmental laws and regulations, the Company may be required to take remedial measures, which could have a material adverse effect on our business, operations, financial condition and results of operations.

THE CB PLACING AGREEMENT

Parties

Issuer	:	the Company
Placing Agent	:	Oriental Patron

Placing Agent

The placing agent, Oriental Patron, is a third party independent of the Company and not a connected person of the Company.

CB Placing Commission

2.5% on the gross proceeds from the CB Placing

CB Subscribers

Oriental Patron shall procure, on a best effort basis, no less than six CB Subscribers to subscribe for the Placing Convertible Bonds for cash in an aggregate principal amount of up to HK$750 million. Oriental Patron undertakes to use its best endeavours to ensure the CB Subscribers procured by Oriental Patron and their respective ultimate beneficial owners and associates that are Independent Third Parties and none of the CB Subscribers procured by Oriental Patron will become substantial Shareholder immediately following the CB Placing Completion.

All CB Subscribers procured by Oriental Patron and their respective ultimate beneficial owners shall be independent of and not connected persons of the Company. Oriental Patron undertakes to use its best endeavours to ensure that the CB Subscribers procured by Oriental Patron are parties independent of and not connected person of and parties acting in concert with Mr. Yeap, the parties to the Sale and Purchase Agreement and their respective ultimate beneficial owners and associates.

Pursuant to the Subscription Agreement, GGYFL conditionally agreed to subscribe for the Subscription Bonds in the aggregate principal amount of HK$540 million. The Subscription Bonds to be subscribed by GGYFL forms part of the Placing Convertible Bonds. As such, the size of the Placing Convertible Bond has been reduced to HK$210 million. The Company will make a further announcement in relation to the size of the Placing Convertible Bonds and the independence of the CB Subscribers (other than GGYFL) as soon as practicable once these CB Subscribers have entered into the relevant subscription agreements.

Appropriate disclosure will be made on the identities of the CB Subscribers (other than GGYFL) should any of these CB Subscribers will become a substantial Shareholder immediately upon the CB Placing Completion.

Conditions

The CB Placing Completion is conditional upon the fulfillment or to the applicable extent, the waiver of, inter alia, the following conditions:

1. the approval by the Shareholders (or, if so required by the GEM Listing Rules, the independent Shareholders) at the EGM of (a) the Sale and Purchase Agreement; (b) the issue of the Convertible Bonds and the Conversion Shares falling to be issued upon the exercise of conversion rights attaching to the Convertible Bonds;

2. the GEM Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares;

3. between the date of the CB Placing Agreement and the date of CB Placing Completion, trading of the Shares shall not have been suspended or threatened to be suspended except for (i) suspension in relation to the issues of announcements and circulars in respect of the Acquisition, the Sale and Purchase Agreement and the CB Placing Agreement and/or other announcements of the Company pursuant to the GEM Listing Rules; and (ii) temporary suspensions for no more than 10 consecutive trading days for technical reasons out of the control of the Company;

4. the Sale and Purchase Agreement becoming unconditional in all respects (save and except any condition requiring the CB Placing Agreement to become unconditional) and not having been terminated by the parties thereto;

5. the aggregate principal amount of the Placing Convertible Bonds to be issued at CB Placing Completion being not less than HK$600 million;

6. the Company shall have obtained legal opinion of its Hong Kong and Cayman Islands counsel on validity and enforceability of the Convertible Bonds in accordance with their terms and conditions and on due authorisation of the Company to issue the Conversion Shares;

7. between the date of the CB Placing Agreement and the date of CB Placing Completion, the representations, warranties and undertakings given by the Company in connection with the issue of the Placing Convertible Bonds remain true, accurate and not misleading in any material respect and no events have occurred that would result in any breach of any such representations and warranties in any material respect.

If any of the above conditions has not been fulfilled or waived by the Company on or before 10 June 2008 (instead of 10 May 2008 as disclosed in the Announcement) or such later date as the Company and Oriental Patron may agree in writing, the CB Placing Agreement shall then lapse and no party shall have any claim against or liability to the other party, save in respect of any of the antecedent breaches of the CB Placing Agreement.

As at the Latest Practicable Date, none of the above conditions has been fulfilled. The Stock Exchange indicated that if the above conditions has not been fulfilled or waived by the Company within 3 months after the date of the EGM at which the resolutions in relation to the CB Placing Agreement and the transactions contemplated thereunder are approved by the Shareholders, it may require the Company to convene another general meeting to seek Shareholders' approval of the CB Placing Agreement and the transactions contemplated thereunder.

None of the conditions precedent contained in conditions (1), (2) and (4) above can be waived by the Company and Oriental Patron. Oriental Patron may at its absolute discretion at any time waive in writing any of the conditions precedent contained in conditions (3), (5), (6) and (7) above (to the extent they are capable of being waived) and such waiver may be made subject to such terms and conditions as are determined by Oriental Patron.

The CB Placing Agreement is conditional upon, among others, the Shareholders' approval as stated in condition (1) above. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholder has an interest in the CB Placing Agreement. The CB Placing and the Acquisition are inter-conditional. The Stock Exchange considers Gold Master has an interest in the Acquisition and hence Gold Master, its ultimate beneficial owners and their respective associates shall abstain from voting on the relevant resolutions in respect of the Sale and Purchase Agreement and the CB Placing Agreement. The voting of relevant resolutions shall be taken by way of poll.

THE SUBSCRIPTION AGREEMENT

On 1 April 2008, the Company announced that the Company and GGYFL entered into the Subscription Agreement on 26 March 2008 pursuant to which the Company conditionally agreed to issue and GGYFL conditionally agreed to subscribe for the Subscription Bonds in the aggregate principal amount of HK$540 million.

The Subscription Bonds to be subscribed by GGYFL forms part of the Placing Convertible Bonds.

The principal terms of the Subscription Agreement is set out below:

Parties

Issuer	:	the Company
Subscriber	:	GGYFL

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, save for the subscription of the exchangeable bond issued by Gold Master (details of which are disclosed under the section headed "Information on Grand Pacific" above), GGYFL and its ultimate beneficial owners are third parties independent of the Company and not connected persons of the Company.

Principal amount

HK$540 million

Conditions precedent

The obligation of the Company to issue, and the obligation of GGYFL to subscribe for, the Subscription Bonds under the Subscription Agreement are subject to the satisfaction or waiver of each of the following conditions precedent:

(1) the approval by the Shareholders (or, if so required by the GEM Listing Rules, the independent Shareholders) at the EGM of (a) the Sale and Purchase Agreement; (b) the issue of the Convertible Bonds and the Conversion Shares falling to be issued upon the exercise of conversion rights attaching to the Convertible Bonds;

(2) the GEM Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Conversion Shares;

(3) between the date of the Subscription Agreement and the Closing Date, trading of the Shares shall not have been suspended or threatened to be suspended except for (i) suspension in relation to the issues of announcements and circulars in respect of the Acquisition, the Sale and Purchase Agreement and the Subscription Agreement and/or other announcements of the Company pursuant to the GEM Listing Rules; and (ii) temporary suspensions for no more than 10 consecutive trading days of the Stock Exchange for technical reasons out of the control of the Company;

(4) the Sale and Purchase Agreement becoming unconditional in all respects including satisfaction (but not waiver) of the condition in the Sale and Purchase Agreement that the Mine Acquisition Agreement has been completed (save and except any condition requiring the Subscription Agreement to become unconditional) and not having been terminated by the parties thereto;

(5) the aggregate principal amount of the Placing Convertible Bonds to be issued at Closing being not less than HK$600 million;

(6) the Company shall have obtained legal opinion of its Hong Kong and Cayman Islands counsel on validity and enforceability of the Convertible Bonds in accordance with their terms and conditions and on due authorisation of the Company to issue the Conversion Shares;

(7) between the date of the Subscription Agreement and the Closing Date, the representations, warranties and undertakings given by the Company under the Subscription Agreement remain true, accurate and not misleading in any material respect (except to the extent any such representations relate to a particular date) and no events have occurred that would result in any breach of any such representations and warranties in any material respect;

(8) the issue and payment for the Convertible Bonds under the Subscription Agreement and/or the issue and allotment of the Conversion Shares: (i) shall not be prohibited or enjoined (temporarily or permanently) by any applicable law or governmental or other regulation; and (ii) shall not subject GGYFL to any penalty, or in its reasonable judgment, other onerous condition under or pursuant to any applicable law or governmental or other regulation that would materially reduce the benefits to GGYFL of the purchase of the Convertible Bonds (provided, however, that such regulation, law or onerous condition was not in effect in such form at the date of the Subscription Agreement);

(9) no event or circumstance has arisen or is threatening to arise which would entitle GGYFL to terminate the Subscription Agreement in accordance terms and conditions of the Subscription Agreement; and

(10) no notice by the Company to GGYFL shall be required to be given by the Company under the Subscription Agreement upon the occurrence of event or circumstance which may render untrue or incorrect in any material respect any of the representations, warranties or undertakings by the Company under the Subscription Agreement.

The Company has undertaken to GGYFL to use all reasonable endeavors to ensure that the above conditions are satisfied as soon as reasonably practicable and prior to 10 June 2008 (instead of 10 May 2008 as disclosed in the Company's announcement dated 1 April 2008) or such later date as the Company and the Majority Investors shall agree in writing.

None of the conditions precedent contained in paragraphs (1), (2) and (4) can be waived by any of the parties under the Subscription Agreement. The Majority Investors may at any time waive in writing any of the conditions precedent contained in paragraphs (3), (5), (6) and (7) (to the extent they are capable of being waived) above. GGYFL may waive any of the conditions precedent contained in paragraphs (8), (9) or (10) above.

If any of the condition precedents shall not have been fulfilled or waived on or before 10 June 2008 (instead of 10 May 2008 as disclosed in the Company's announcement dated 1 April 2008) or such later date as the Company and the Majority Investors shall agree in writing, then all rights, obligations and liabilities of the parties under the Subscription Agreement shall cease and terminate and no party shall have any claim against the other in relation thereto save for antecedent breaches of the provisions of the Subscription Agreement.

Acceptable Designate

GGYFL may designate another person to subscribe for Subscription Bonds by a notice given to the Placing Agent and to the Company on or before the date of the EGM and subject to:

(i) the designate qualifying as a professional investor, as that term is defined in the SFO, who is not a connected person of the Company and who shall be reasonably acceptable to the Company ("**Acceptable Designate**");

(ii) the Acceptable Designate shall enter into and deliver to the Placing Agent a subscription agreement for the Subscription Bonds agreed to be subscribed by it on or before the date of the EGM.

Subject to compliance with the foregoing provisions, the number of Subscription Bonds to be subscribed by GGYFL shall be reduced by the number of Subscription Bonds agreed to be subscribed by the Acceptable Designate.

Closing

After the delivery by the Company of the Closing Notice, the Closing shall take place on the next Business Day following compliance by the Company and GGYFL of their respective pre-closing obligations as specified in the Subscription Agreement. The pre-closing obligations include the issue and delivery by the Company of the Subscription Bonds to the Placing Agent and payment by GGYFL of the subscription price to the designated account of the Placing Agent on the second Business Day after the issue by the Company of the Closing Notice.

Use of proceeds

The Company shall use the net proceeds of the Convertible Bonds as disclosed under the section headed "Reasons for the CB Placing and the Share Placing and use of proceeds" in the Announcement (as amended or supplemented in terms of this circular).

The Company will make further announcement should there be any change in the use of proceeds from the issuance of the Convertible Bonds as disclosed in this circular.

Termination rights

The Subscription Agreement may be terminated by GGYFL upon the occurrence of certain events specified therein including (i) insolvency or liquidation of the Company; (ii) material breach by the Company of any representation, warranty or covenant contained in the Subscription Agreement; (iii) revocation of the Company's listing status on the Stock Exchange; or (iv) legal impediment on the issue of the Subscription Bonds under Subscription Agreement or the Conversion Shares.

The Subscription Agreement may be terminated by the Company upon the occurrence of certain events specified therein including (i) the Shareholders declining to approve the Sale and Purchase Agreement, the issue of the Convertible Bonds and the Conversion Shares; (ii) the GEM Listing Committee of the Stock Exchange refusing to grant the listing of, and permission to deal in, the Conversion Shares; (iii) the occurrence of circumstances which entitles the Company to terminate the Sale and Purchase Agreement and the Company having determined to exercise such right.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds (comprising the Placing Convertible Bonds and the Consideration Convertible Bonds and the principal terms of both of which are identical) are set out below:

Aggregate principal amount:	Total amount : HK$920 million, of which (a) Placing Convertible Bonds : HK$750 million; and (b) Consideration Convertible Bonds: HK$170 million, and is divided into 920 Convertible Bonds each in the nominal amount of HK$1,000,000
Conversion Price:	The Conversion Price is the lower of either: (a) HK$1.30 per Conversion Share (the "**Fixed Conversion Price**"); or

(b) 100% of the average of the three lowest closing prices for a Share on the Stock Exchange or, if trading in the Shares is suspended and there is no closing price at the Stock Exchange on a relevant day, the last traded price reported per Shares on such day, during the 20 trading days period prior to the date of issue of the conversion notice (the "**Variable Conversion Price**") save that the lowest Variable Conversion Price shall not be less than the nominal value of the Share (i.e. HK$0.01) *(Note 4)*.

The Fixed Conversion Price is subject to adjustment provisions which are standard for convertible securities of similar type. The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of the Shares, capitalization of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company. The Company will instruct its auditors or a merchant bank to certify in writing the adjustment (if any) made to the Fixed Conversion Price.

No conversion of the Convertible Bonds shall take place if it will result in the Conversion Shares being issued at a price below their nominal value at the applicable Conversion Date.

Interest rate:	1% per annum and payable at the time of conversion or redemption.
Maturity:	The fifth anniversary from date of issue of the Convertible Bonds (the "**Maturity Date**").
Transferability:	the Convertible Bonds may be transferred, in minimum units of HK$1,000,000, by the holder to any third party.
Conversion period:	The holders of the Convertible Bonds shall have the right to convert at any time prior to the Maturity Date, the whole (in an amount or integral multiple of HK$1,000,000) amount of the Convertible Bonds into Conversion Shares at the then prevailing Conversion Price.

	There shall not be any conversion of the Convertible Bonds by the holders of the Convertible Bonds if such conversion will result in a holder of the Convertible Bonds and their respective parties acting in concert with them, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued Shares (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer). *(Note 1)*
Mandatory Conversion:	Subject to the Conversion Cap, the aggregate principal amount of the Convertible Bonds together with accrued interest shall be automatically converted into Conversion Shares upon Maturity Date at the then prevailing Conversion Price. There shall not be any mandatory conversion of the Convertible Bonds on the Maturity Date if such conversion will result in a holder of the Convertible Bonds and their respective parties acting in concert with them, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued Shares (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer). *(Note 1)*
Conversion Cap:	Each Convertible Bond may be converted only up to a maximum of 1,000,000 Conversion Shares (the "**Conversion Cap**") so that the aggregate number of Conversion Shares which the Company may be required to issue on conversion of all the Convertible Bonds shall be 920 million Conversion Shares. If upon exercise of conversion right, the number of Conversion Shares required to be issued by the Company would otherwise exceed the Conversion Cap from time to time, the Convertible Bond shall be converted only up to the Conversion Cap, and the unconverted amount of the Convertible Bond shall be redeemed by the Company in cash equal to 120% of the unconverted principal amount together with accrued interest. *(Note 5)* The Company may from time to time subject to complying with applicable laws and regulations and obtaining (i) a mandate from the Shareholders for the issue of further Conversion Shares; and (ii) an approval for the listing of, and permission to deal in such Conversion Share from the Stock Exchange, in relation to the increase in the Conversion Cap. *(Note 2)*

No conversion right may be exercised, to the extent that following such exercise, a holder of the Convertible Bond and parties acting in concert with it, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued Shares (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer). *(Notes 1 and 3)*

Listing: No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.

Voting Rights: The Convertible Bonds do not confer any voting rights at general meetings of the Company on the holder of the Convertible Bonds.

Ranking: The Convertible Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the Company (instead of direct, senior, unsubordinated, unconditional and unsecured obligations of the Company as disclosed in the Announcement) and shall at all times rank, pari passu, without preference or priority amongst themselves.

The Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Bonds shall rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the Convertible Bonds.

Early redemption: The Company is entitled to cancel and to redeem all the Convertible Bonds in whole at any point in time after the third anniversary of the date of issue of the Convertible Bonds prior to the Maturity Date at 135% of their principal amount together with accrued interest. *(Note 6)*

Each holders of the Convertible Bonds may terminate and request immediate redemption of the Convertible Bonds at 135% of their principal amount together with accrued interest by notice to the paying agent upon the occurrence of any of the following events:

(a) the Company shall not have delivered the Conversion Shares in accordance with terms and conditions of the Convertible Bonds and such breach shall have subsisted for more than ten (10) days after the Company shall have been notified of such non-delivery of Conversion Shares by a holder of the Convertible Bonds; or

(b) the Company shall not have complied with any other material obligation under the Convertible Bonds and such breach shall not have been cured within 30 days after the Company has been requested by a holder of the Convertible Bonds to cure such material breach; or

(c) the performance by the Company of its obligations under the Convertible Bonds shall breach any applicable law.

Notes:

1. The 30% limit is to ensure that if upon conversion of the Convertible Bonds, no holder of the Convertible Bonds and their respective parties acting in concert with them will result in a change of control (as defined in the Takeovers Code) of the Company.

2. Grand Pacific and GGYFL have indicated they, their respective ultimate beneficial owners and associates will not exercise rights under the Convertible Bonds and the Exchangeable Bond which will result in a change of control of the Company.

3. The 30% limit also applies to the increase in the Conversion Cap.

4. Assuming that (i) the Conversion Shares are issued at the Conversion Price of HK$0.01 each, being the nominal value of the Share; (ii) the Shareholders' approval of the increase in the Conversion Cap has been obtained; and (iii) the Stock Exchange has granted the approval of the listing of, and permission to deal in such Conversion Shares, the maximum number of the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds in full is 92,000 million Conversion Shares. The maximum number of 92,000 million Conversion Shares represents approximately (i) 17,037% of the existing issued share capital of the Company; and (ii) 99% of the issued share capital of the Company as enlarged by such number of Conversion Shares.

5. The Conversion Cap of 920 million Conversion Shares represents approximately 1% of the maximum number of the Conversion Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds in full of 92,000 million Conversion Shares based on the assumptions as mentioned in note 4 above.

6. As disclosed in the Company's announcement dated 1 April 2008, where the Company exercises its right to redeem the Subscription Bonds after the third anniversary of the date of issue of the Subscription Bonds prior to the Maturity Date, the redemption amount will be 135% (instead of 130% as previously disclosed in the Announcement) of their principal amount together with accrued interest. Such redemption amount will apply to the Convertible Bonds to be issued under the Sale and Purchase Agreement and the CB Placing Agreement.

Conversion Price

The principal terms of the Convertible Bonds was negotiated between the Company, Placing Agent and Grand Pacific (as the subscriber to the Consideration Convertible Bond) which Conversion Price is set at the lower of either the Fixed Conversion Price or Variable Conversion Price. The reason for having a Variable Conversion Price rather than just a Fixed Conversion Price is to enable the Conversion Shares to be issued upon the exercising the conversion rights attached to the Convertible Bonds are priced based on the prevailing market price of the Shares with the Fixed Conversion Price as a cap to commensurate the risk profile of the Convertible Bonds such as low coupon rate, long repayment terms with early redemption options, mandatory conversion features, no security etc.

Conversion Shares

Subject to the Conversion Cap, the maximum of 750 million and 170 million Conversion Shares respectively falling to be issued upon full conversion of the Placing Convertible Bonds and Consideration Convertible Bonds, representing approximately (i) 138.89% and 31.48% of the existing issued share capital of the Company respectively; (ii) 58.14% and 23.94% of the issued share capital of the Company as enlarged by the issue of their respective Conversion Shares respectively; and (iii) 46.07% and 16.22% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares, the Placing Shares and upon full conversion of the Convertible Bonds (subject to the Conversion Cap) for their respective Conversion Shares respectively.

Fixed Conversion Price

The Fixed Conversion Price of HK$1.30 per Conversion Share (subject to adjustments) was arrived at after arm's length negotiation between Oriental Patron and the Company and represents:

(i) a premium of approximately 85.71% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 109.68% to the average closing price per Share of approximately HK$0.62 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 128.07% to the average closing price per Share of approximately HK$0.57 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 64.56% to the closing price of HK$0.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(v) a premium of approximately 948.39% to the unaudited consolidated net assets value per Share of approximately HK$0.124 as at 30 September 2007; and

(vi) a premium of approximately 437.19% to the unaudited consolidated net assets value per Share of approximately HK$0.242 as at 30 September 2007 adjusted for the unaudited results for the three-month period from 1 October 2007 to 31 December 2007.

Based the above analysis, the Directors consider that the terms of the Convertible Bonds, including the Fixed Conversion Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

DILUTION EFFECT ON SHAREHOLDERS

In view of the potential dilution effect on existing Shareholders on exercise of conversion rights attaching to the Convertible Bonds, for so long as any of the Convertible Bonds are outstanding, the Company will keep Shareholders informed of the level of dilution and details of conversion as follows:

(1) the Company will make a monthly announcement (the "**Monthly Announcement**") on the website of the Stock Exchange and the Company after the issue of the Convertible Bonds. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

(a) whether there is any conversion of the Convertible Bonds during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

(b) the outstanding principal amount of the Convertible Bonds after the conversion, if any;

(c) the total number of new Shares issued pursuant to other transactions during the relevant month, including new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company;

(d) the total issued share capital of the Company as at the commencement and the last day of the relevant month;

(2) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange and the Company including details as stated in (i) above for the

period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be), up to the date on which the total amount of Shares issued pursuant to the conversion amounts to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds; and

(3) if the Company forms the view that any issue of Conversion Shares will trigger the disclosure requirements under Rule 17.10 of the GEM Listing Rules, then the Company is obliged to make such disclosure regardless of the issue of any announcement in relation to the Convertible Bonds as mentioned in (1) and (2) above.

THE SHARE PLACING AGREEMENT

Parties:

Issuer	:	the Company
Placing Agent	:	Oriental Patron

The placing agent, Oriental Patron, is a third party independent of the Company and not a connected person of the Company.

Share Placing commission

2.5% of the gross proceeds from the Share Placing.

Placing Price

The Placing Price is HK$0.80 per Placing Share. After deducted the related expenses, the net Placing Price will be approximately HK$0.78 per Placing Share.

The HK$0.80 per Placing Share represents:

(i) a premium of approximately 14.29% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 29.03% to the average closing price of approximately HK$0.62 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 40.35% to the average closing price of approximately HK$0.57 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 1.27% to the closing price of HK$0.79 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(v) a premium of approximately 545.16% to the unaudited consolidated net asset value per Share of approximately HK$0.124 as at 30 September 2007; and

(vi) a premium of approximately 230.58% to the unaudited consolidated net asset value per Share of approximately HK$0.242 as at 30 September 2007 adjusted for the unaudited results for the three-month period from 1 October 2007 to 31 December 2007.

Number of Placing Shares

Up to 108 million new Placing Shares will be placed by the Placing Agent on a best efforts basis.

The Placing Shares represent approximately (i) 20% of the existing issued share capital of the Company; and (ii) 16.67% of the issued share capital of the Company as enlarged by the Placing Shares.

Share Placees

No less than six individual, corporate and/or institutional investors. The Placing Agent undertakes to use its best endeavours to procure the Share Placees and their respective ultimate beneficial owners and associates that are Independent Third Parties and none of the Share Placees will become substantial Shareholder immediately following the Share Placing Completion.

Ranking of the Placing Shares

The Placing Shares will rank pari passu in all respects among themselves and with all other Shares in issue as at the date of allotment and issue of the Placing Shares.

Issue under General Mandate

The Placing Shares will be issued pursuant to the maximum limit of the General Mandate. As at the Latest Practicable Date, no new Shares have been issued under the General Mandate.

Condition precedent to the Share Placing Completion

The Share Placing is conditional upon the GEM Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Placing Shares.

If the above condition precedent is not fulfilled on 10 June 2008 or such later date as may be agreed by the Company and Oriental Patron in writing, the Share Placing Agreement shall lapse and no party shall have any claim against the other in relation thereto save for antecedent breaches of the Share Placing Agreement.

Completion

The Share Placing Completion shall take place within the ten business days following the fulfillment of the condition precedent.

Application for listing

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

The terms of the Share Placing Agreement were arrived at after arm's length negotiation between, and are the respective commercial decisions of, the Company and the Placing Agent (having regard to the size of the Share Placing and the general market conditions). The Directors (including all the independent non-executive Directors) consider those terms of the Share Placing Agreement to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Placing Agent also undertakes to use its best endeavours to procure the Share Placees that are parties independent of and not connected person of and parties acting in concert with Mr. Yeap, the parties to the Sale and Purchase Agreement and their respective ultimate beneficial owners and associates.

Appropriate disclosure will be made on the identities of the Share Placee(s) should any of the Share Placee(s) become a substantial Shareholder immediately upon the Share Placing Completion.

REASONS FOR THE CB PLACING AND THE SHARE PLACING AND USE OF PROCEEDS

The maximum total gross proceeds from the issue of the Placing Convertible Bonds and the Placing Shares in aggregate amount to approximately HK$836.40 million comprising:

	HK$ million
Placing Convertible Bonds	750.00
Placing Shares	86.40
Total amount	836.40

After deducting related expenses of approximately HK$20.91 million, the net proceeds from the CB Placing and Share Placing will be approximately HK$815.49 million. The Company intends to apply the net proceeds as to approximately (i) HK$546.00 million for the partial financing of the Acquisition; (ii) HK$126 million towards further capital contributions into and expenditures for Mengxi Chemical and Mengxi Minerals; and (iii) the balance of HK$143.49 million as working capital of the Group.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE SUBSCRIPTION AGREEMENT

The aggregate principal amount of the Placing Convertible Bonds is up to HK$750 million. Taking into the account the Subscription Bonds of an aggregate principal amount of HK$540 million to be subscribed by GGYFL, the remaining size of the Placing Convertible Bonds is of an aggregate principal amount of up to HK$210 million.

The net proceeds from the Placing Convertible Bonds will be utilized principally to finance the cash portion of HK$546 million of the maximum consideration of HK$900 million for the Acquisition. The Acquisition and the CB Placing is inter-conditional and it is one of the conditions precedent to the CB Placing that the aggregate principal amount of the Placing Convertible Bonds to be issued at the Closing being not less than HK$600 million. The Placing Convertible Bonds are being placed by the Placing Agent on a best effort basis only, the entering into the Subscription Agreement amounting to HK$540 million will enable the Company to secure substantial portion of funding required to finance the Acquisition.

The additional commitment of subscription of the Subscription Bonds of an aggregate principal amount of HK$540 million by GGYFL also indicates its confidence in the future prospects of the Company.

Having considered the above, the Directors consider that the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES OF THE COMPANY FOR THE PAST TWELVE MONTHS

The Company has not conducted any fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

SHAREHOLDING STRUCTURE OF THE COMPANY

The Acquisition and the CB Placing are inter-conditional while the Share Placing is not conditional upon the Acquisition or the CB Placing.

Assuming that from the Latest Practicable Date up to the date of full conversion of the Conversion Shares upon exercising the conversion rights attaching to the Convertible Bonds or the Maturity Date, whichever is earlier, (a) no Shares will be issued and/or repurchased by the Company; and (b) no Share Option will be exercised, the following table illustrates the shareholding structure of the Company: (i) as at the Latest Practicable Date; (ii) upon the Share Placing Completion; (iii) upon the Share Placing Completion and the issue of the Consideration Shares but before the conversion of the Consideration Convertible Bonds and the Placing Convertible Bonds; (iv) upon the Share Placing Completion, the issue of the Consideration Shares and the full conversion of the Consideration Convertible Bonds (subject to the Conversion Cap) only; (v) upon the Share Placing Completion, the issue of the Consideration Shares, the full conversion of the Consideration Convertible Bonds and the Placing Convertible Bonds (including the Subscription Bonds subscribed by GGYFL) (subject to the Conversion Cap)) and the exchange for 67,200,000 Shares by GGYFL pursuant to the Exchangeable Bond:

Name of Shareholders	As at the Latest Practicable Date	%	Upon the Share Placing Completion *(Note 1)*	%	Upon the Share Placing Completion and the issue of the Consideration Shares but before the conversion of the Consideration Convertible Bonds and the Placing Convertible Bonds *(Note 1)*	%	Upon the Share Placing Completion, the issue of the Consideration Shares and the full conversion of the Consideration Convertible Bonds only *(Note 1)*	%	Upon the Share Placing Completion, the issue of the Consideration Shares, the full conversion of the Consideration Convertible Bonds and the Placing Convertible Bonds and the exchange for 67,200,000 Shares by GGYFL pursuant to the Exchangeable Bond *(Notes 1 and 2)*	%
Plowright Investments Limited *(Note 13)*	81,001,000	15.00	81,001,000	12.50	81,001,000	9.23	81,001,000	8.76	81,001,000	7.18
Gold Master *(Notes 3 and 13)*	81,000,000	15.00	81,000,000	12.50	81,000,000	9.23	81,000,000	8.76	13,800,000	1.22
Excel Formation Limited and Huge Mars Limited *(Notes 4 and 13)*	83,826,500	15.52	83,826,500	12.94	83,826,500	9.54	83,826,500	9.07	83,826,500	7.43
GGYFL and Grand Pacific *(Notes 3, 5, 6, 7, 8, 9 and 13)*	–	–	–	–	230,000,000	26.20	276,400,000	29.90	337,300,000	29.90
Subtotal	245,827,500	45.52	245,827,500	37.94	475,827,500	54.20	522,227,500	56.49	515,927,500	45.73
Public *(Note 12)*										
Share Placees *(Note 10)*	–	–	108,000,000	16.66	108,000,000	12.30	108,000,000	11.69	108,000,000	9.57
Other CB Subscribers *(Note 11)*	–	–	–	–	–	–	–	–	210,000,000	18.62
Other Shareholders	294,172,500	54.48	294,172,500	45.40	294,172,500	33.50	294,172,500	31.82	294,172,500	26.08
Subtotal	294,172,500	54.48	402,172,500	62.06	402,172,500	45.80	402,172,500	43.51	612,172,500	54.27
Total	**540,000,000**	**100.00**	**648,000,000**	**100.00**	**878,000,000**	**100.00**	**924,400,000**	**100.00**	**1,128,100,000**	**100.00**

Notes:

1. Assuming that all of the 108 million Placing Shares are fully placed by Oriental Patron.

2. Assuming that all the remaining Placing Convertible Bonds in an aggregate principal amount of HK$210 million are fully placed by Oriental Patron.

3. On 10 January 2008, GGYFL subscribed for the Exchangeable Bond issued by Gold Master, which holds 81,000,000 Shares as at the Latest Practicable Date. The United States dollar denominated Exchangeable Bond (subject to exchange rate movements) is exchangeable for up to 67.20 million Shares pursuant to the terms and conditions therein.

4. Both Excel Formation Limited and Huge Mars Limited are controlled by Cheng Yu Tung.

5. Grand Pacific is a wholly-owned subsidiary of GGYFL.

6. On 26 March 2008, the Company and GGYFL entered into the Subscription Agreement pursuant to which the Company conditionally agreed to issue and GGYFL conditionally agreed to subscribe for the Subscription Bonds of an aggregate principal amount of HK$540 million.

7. Assuming that GGYFL will not designate an Acceptable Designate to subscribe for the Subscription Bonds, so that the number of the Subscription Bonds to be subscribed by GGYFL will be an aggregate principal amount of HK$540 million, which is convertible to up to 540 million Conversion Shares subject to the Conversion Cap.

8. Upon the Acquisition Completion, 230 million Consideration Shares will be issued to Grand Pacific.

9. Subject to the Conversion Cap, the maximum number of the Conversion Shares falling to be issued upon exercising the conversion rights attached to the Consideration Convertible Bonds is 170 million Conversion Shares. The number of Shares held by GGYFL, Grand Pacific, their respective associates and parties acting in concert with them is subject to a maximum of 29.90% of the Company's voting right.

10. Assuming that none of the Share Placees will become a substantial Shareholder immediately upon the Share Placing Completion.

11. Subject to the Conversion Cap, the maximum number of the Conversion Shares falling to be issued under the Placing Convertible Bonds (other than the Subscription Bonds) is 210 million Conversion Shares. Assuming that save for GGYFL, none of the other subscribers to the Placing Convertible Bonds will become a substantial Shareholder upon full conversion of the Placing Convertible Bonds.

12. The Directors undertake to monitor the minimum public float pursuant to the GEM Listing Rules, i.e. at least 25% of the total issued share capital of the Company will be held in the hands of the public, will be maintained upon the Share Placing Completion, the issue of the Consideration Shares and the full conversion of the Share Options, the Consideration Convertible Bonds and the Placing Convertible Bonds.

13. Save as disclosed in notes 3, 4 and 5 above, there is no relationship between Plowright Investments Limited, Gold Master, Excel Formation Limited, Huge Mars Limited, GGYFL and Grand Pacific and there is no Takeovers Code implication in respect of the Acquisition.

14. The Company has 21,600,000 Share Options outstanding as at the Latest Practicable Date, which was granted by the Company on 19 February 2008. Save as disclosed, there are no outstanding convertible notes, options, warrants or similar rights to subscribe for newly issued equity securities of the Company as at the Latest Practicable Date. The shareholding table does not take into accounts the potential dilution effect caused by the outstanding Share Options of 21,600,000 as it accounts for approximately (i) 4% of the existing issued share capital of the Company; and (ii) 1.91% of the issued share capital of the Company upon the Share Placing Completion, the issue of the Consideration Shares and the full conversion of the Convertible Bonds (subject to the Conversion Cap) and the exchange for 67,200,000 Shares by GGYFL pursuant to the Exchangeable Bond.

15. Each of the above scenarios should be interpreted on an individual basis.

To the best of the Directors' knowledge and belief and taking into account the principal terms of the Convertible Bonds which, among others, restricting the rights of holders of the Convertible Bonds from any conversion of the Convertible Bonds if such conversion will result in a holder of the Convertible Bonds and their respective parties acting in concert with them, taken together, will directly or indirectly, control or be interested in 30% or more of the voting rights in respect of the issued Shares (or in such lower percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer), the Directors consider there shall be no change in the control of the Company upon issue of the Consideration Shares and the Placing Shares, as well as upon the full conversion of the Consideration Convertible Bonds, the Placing Convertible Bonds and the Share Options.

THE SUPPLY AGREEMENT DATED 1 FEBRUARY 2008

Parties:

Purchaser	:	Mengxi Chemical
Seller	:	Mengxi Minerals

Subject matter

Mengxi Minerals shall supply, on an exclusive basis, and Mengxi Chemical shall purchase the Raw Coal extracted by Mengxi Minerals from the Target Mine. Within one month upon the Supply Agreement becoming effective and in the first month of each calendar year during the term of the Supply Agreement, parties to the Supply Agreement shall agree on the annual plan of Mengxi Minerals for that calendar year (including but not limited to its quantity of the Raw Coal to be extracted or produced, type of products, its specification and quality, expected production timetable and time of delivery, etc.). Without the prior consent of Mengxi Chemical in writing, the quantity of the Raw Coal as produced or extracted by Mengxi Minerals shall not exceed the quantity specified in the annual plan as agreed by the parties to the Supply Agreement.

Assignment

The Supply Agreement provides that Mengxi Chemical may assign part or all of the said agreement to third party to purchase the Raw Coal at a price no less than the applicable price offered by Mengxi Minerals under the Supply Agreement.

Term

The Supply Agreement is for a term of three years effective upon the Acquisition Completion Date. At the end of each three-year term, Mengxi Chemical has the right (but not the obligation) to renew the Supply Agreement for a further term of three years.

Price

The applicable price of the Raw Coal is determined on a cost-plus basis, which is determined as the cost of production of the Raw Coal (calculated based on the PRC generally accepted accounting standards adopted by general coal production enterprises of the PRC) plus a value added rate of 10%, subject to the condition that the applicable price shall not be higher than the Market Price of the Raw Coal.

Payment terms

Mengxi Chemical shall pay Mengxi Minerals for the Raw Coal purchased within one month from the date of delivery of the Raw Coal to Mengxi Chemical by way of cash.

Conditions

The Supply Agreement is conditional upon, among others,

(1) the Acquisition Completion;

(2) (if required) the passing by the independent Shareholders at the EGM by way of ordinary resolution to approve the Supply Agreement and the transactions contemplated thereunder; and

(3) (if required) the approval, or waiver from strict compliance of the relevant rules (including Chapter 20 of the GEM Listing Rules), by the Stock Exchange in respect of the Supply Agreement having been obtained.

The Annual Caps

The following table shows the Annual Caps for the sale of the Raw Coal by Mengxi Minerals to Mengxi Chemical for each of the three years ended 31 March 2011 (instead of each of the three years ended 31 December 2010 as disclosed in the Announcement):

	For the year ending 31 March		
	2009	**2010**	**2011**
RMB million	180.00	530.00	800.00
HK$ million equivalent	192.20	565.93	854.24

The Annual Caps is calculated by multiplying the forecasted volume of purchases of the Raw Coal by Mengxi Chemical from Mengxi Minerals by the estimated unit price of the Raw Coal, with an addition of a buffer of RMB 5 million, RMB40 million and RMB100 million on the estimated amount of purchase for each of the three years ended 31 March 2011 to cater for possible fluctuations and adjustments in the purchase price and quantity of the Raw Coal. The forecasted volume of purchases of the Raw Coal is 1 million tonnes, 2.8 million tonnes and 4 million tonnes respectively for each of the three years ended 31 March 2011 and the unit price of the Raw Coal used is RMB175 per tonne. The unit price of the Raw Coal of RMB175 is the average of (i) the production cost of the Raw Coal of RMB80 per tonne as estimated by Mengxi Minerals plus a value added rate of 10%, being approximately RMB90 per tonne; and (ii) the market price of the Raw Coal of RMB260 per tonne in January 2008 (approximate to the date of the Supply Agreement) as quoted from the website of 中國煤炭價格網 (www.coalprice.cn).

Basis of the Annual Caps

The Annual Caps are calculated after taking into account the anticipated production requirements of Mengxi Chemical with reference to (i) current market price and estimated mining cost of the Raw Coal and (ii) the applicable coal mining methods. The Directors consider that the Annual Caps are fair and reasonable.

Reasons for and benefits of entering into the Supply Agreement

The Raw Coal is the principal raw material used by Mengxi Chemical for its production of coking coal, thermal coal, coke and coking by-products. The Supply Agreement grants an exclusive right to purchase the 99.60 million tonnes coal reserves of the Target Mine and thereby enable Mengxi Chemical a continuing supply of the Raw Coal for its production. The Supply Agreement also grants Mengxi Chemical a right to purchase the Raw Coal at a price that is capped at the prevailing market price thus ensuring the competitiveness of its products in the market place.

The transactions contemplated under the Supply Agreement will be entered into in the ordinary and usual course of the business of the Group after the Acquisition Completion and the terms of the Supply Agreement was negotiated and agreed between the relevant parties to the Supply Agreement on an arm's length basis. The Directors consider that the terms of the Supply Agreement are fair and reasonable as far as the independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

RE-ELECTION OF DIRECTOR

The Company has appointed Mr. Jonathan Soon P. Yeap as the chief executive officer of the Company and an executive Director with an effective date of 1 February 2008 and 21 February 2008 respectively.

Mr. Jonathan Soon P. Yeap, aged 46, has over 23 years' experience in energy and natural resources industries. He has led a number of United States companies into Asia Pacific especially China.

Mr. Yeap was the chief executive officer of China region and managing director of Asia Pacific region of a global energy group, Enron Corporation, from 1997 to 2001. During this period, he was instrumental in the developments, constructions and acquisitions of over 20 companies in upstream oil and gas exploration and downstream power plants and natural gas distribution.

From 1993 to 1996, Mr. Yeap was the chief executive officer of a subsidiary of a large oil, gas coal and power company in the United States. During this period, he had the management oversight for its China operations.

From 1992 to 1993, Mr. Yeap was a project director of a large United States power generating company assigned to the PRC. He was the lead developer for a foreign invested integrated coal mine, power plant, DC transmission line project transporting electricity from Shanxi province, the PRC to Jiangsu/Shanghai, the PRC.

From 1983 to 1992, Mr. Yeap held various engineering and financial positions with a Canadian company specializing in development, construction, and operation of independent power plants worldwide.

Mr. Yeap has a Bachelor degree in Electrical Engineering from the University of Alberta.

Mr. Yeap has not held any directorship in any listed companies during the last three years preceding the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Yeap was not interested in any shares of the Company within the meaning of Part XV of the SFO.

Mr. Yeap does not have any relationship with any director, senior management, management shareholders (as defined in the GEM Listing Rules), or substantial shareholders of the Company.

Mr. Yeap was a director of Joy Harvest from 1 August 2007 to 23 January 2008. Mr. Yeap has also been a director, the legal representative, chairman and general manager of Mengxi Minerals and Mengxi Chemical since 30 November 2007 and 29 November 2007 respectively. Mr. Yeap owned 50% of the issued share capital of Joy Harvest during the period from 1 August 2007 to 20 August 2007.

There is no service contract entered into between the Company and Mr. Yeap. He is currently not entitled to any remuneration. His initial term of service as an executive Director started on 21 February 2008 and up to the Company's forthcoming annual general meeting pursuant to the articles of association of the Company. The Board proposes to seek Shareholders' approval on the re-election of Mr. Yeap as a Director at the EGM.

Save as disclosed above, there are no other matters relating to the appointment of Mr. Yeap as an executive Director that need to be brought to the attention of the Shareholders and there is no other information which is required to be disclosed under Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

GEM LISTING RULES IMPLICATIONS

Based on the applicable ratios set forth in Chapter 19 of the GEM Listing Rules, the Acquisition constitutes a very substantial acquisition of the Company under the GEM Listing Rules for the Company and hence, is subject to the approval of the Shareholders.

As disclosed in the paragraph headed "Information on Grand Pacific" above, JHI may use part of the cash portion of the consideration for the Acquisition to repay the loan due to Gold Master, a substantial Shareholder which held 81,000,000 Shares representing approximately 15% of the issued share capital of the Company as at the Latest Practicable Date. To the best of the Directors' knowledge, information, belief and having made reasonable enquiries, the voting rights represented by, controlled or are entitled to be exercised control by Gold Master, its ultimate beneficial owners and their respective associates in the share capital of the Company are 81,000,000 Shares. The Stock Exchange considers Gold Master has an interest in the Acquisition and hence Gold Master, its ultimate beneficial owners and their respective associates shall abstain from voting on the relevant resolutions in respect of the Sale and Purchase Agreement and the CB Placing Agreement. To the best of the Directors' knowledge, information, belief and after having made all reasonable enquiries, save as disclosed above, no Shareholder has an interest in the Acquisition. The voting of the relevant resolutions shall be taken by way of poll.

Mengxi HT holds 30% of equity interests in of each Mengxi Minerals and Mengxi Chemical. Upon the Acquisition Completion, Mengxi Chemical will become a non-wholly owned subsidiary of the Company and thus Mengxi HT will become a connected person of the Company at subsidiary level. Thus, the continuing transaction pursuant to the Supply Agreement entered into between Mengxi Minerals and Mengxi Chemical constitute a continuing connected transaction for the Company under the GEM Listing Rules.

The Directors expect that the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the supply of the Raw Coal under the Supply Agreement will, on an annual basis, be more than 2.5% and the annual consideration is expected to be more than HK$10 million. Hence, upon the Acquisition Completion, the continuing supply of the Raw Coal pursuant to the Supply Agreement, will constitute non-exempt continuing connected transactions for the Company.

The Supply Agreement is therefore subject to the reporting, announcement and independent Shareholders' approval by way of poll requirements under Rules 20.45 to 20.54 and the requirements of annual review of continuing connected transactions under Rules 20.37 to 20.40 of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) no Shareholder has interest in the Supply Agreement; and (ii) no Shareholder shall be required to abstain from voting on the relevant resolution.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

In July 2007, the Group completed the acquisition of controlling interests in two companies which are principally engaged in auto servicing business and on-line distribution of office supplies and equipments respectively. Following the completion of the disposal of the office furniture business in October 2007, auto servicing and repairing is the core continuing business operation of the Group. The Company believes that as the per capita income increases in China, the purchasing power to purchase private car is increasing. The auto beautification and car repairing industry will be highly beneficial as the car population increase.

Upon the Acquisition Completion, the Company will own the entire equity interest of Imare, which will own a controlling interest in Mengxi Chemical and Mengxi Minerals will become its associated company. Mengxi Chemical has the right to own, build and operate a beneficiation plant of annual production capacity of 1.5 million tonnes and a coking coal plant of an annual production capacity of 0.80 million tonnes at a site in the 鄂爾多斯市蒙西高新技術工業園 (Mengxi New High Technology Industrial Park at Erduosi City), Inner Mongolia Autonomous Region and to sell the resulting products. The mining licence (採礦許可証) of the Target Mine granted by the Ministry of Land and Resources of Inner Mongolia Autonomous Region confers Mengxi Minerals the right of exploitation of the Target Mine until August 2016. It is expected that the operations of the Imare Group will lead to significant enhancement of the overall business and financial performance of the Enlarged Group.

The Company intends to continue its existing principal business and will periodically conduct a review of the operations of the Group with a view to developing a corporate strategy to enhance its existing businesses and asset base and broaden its income stream by various measures, which may include further investing in and expansion of existing businesses or divesting of loss-making operations of the Group should appropriate opportunities arise. Save for the Acquisition, the Company does not have any immediate plan of injecting any of its assets into the Group or redeploying any of the fixed assets of the Company.

THE EGM

Set out on pages 165 to 168 of this circular is a notice convening the EGM to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on 20 May 2008 at 11:00 a.m., at which resolutions will be proposed to consider and, if thought fit, (i) the very substantial acquisition in relation to Imare Company Limited; (ii) the placing of Convertible Bonds and subscription of the Subscription Bonds; (iii) the Supply Agreement (including the Annual Caps); and (iv) the re-election of Mr. Yeap as a Director, to be passed by the Shareholders or the independent Shareholders (as the case may be).

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM should you so wish.

RECOMMENDATION

The Directors (including the non-executive Directors) consider that the terms of the Sale and Purchase Agreement, the CB Placing Agreement, the Subscription Agreement and the Supply Agreement (including the Annual Caps) are fair and reasonable, are in the interest of the Company and the Shareholders as a whole and accordingly recommend the Shareholders and the independent Shareholders (as the case may be) to vote in favour of the relevant resolutions to be proposed at the EGM.

Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders regarding the Supply Agreement and the Annual Caps.

Ample Capital considers that the Supply Agreement and the Annual Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Shareholders and the Company as a whole are concerned. The text of the letter of advice from Ample Capital to the Independent Board Committee and the independent Shareholders containing its recommendations and the principal factors and reasons which they have taken into account in arriving at their recommendations are set out on pages 55 to 61 of this circular.

PROCEDURE FOR DEMANDING A POLL

Pursuant to Article 66 of the articles of association of the Company, at any general meeting a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands, or on the withdrawal of any other demand for a poll) a poll is duly demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or

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

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right; or

(e) by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five per cent (5%) or more of the total voting rights at such meeting.

A poll which is duly demanded shall then be held in such manner prescribed by the articles of association of the Company.

FURTHER INFORMATION

Your attention is also drawn to the letter of advice from Ample Capital to the Independent Board Committee and the independent Shareholders as disclosed on pages 55 to 61 of this circular and the additional information set out in the appendice to this circular.

By order of the Board
Challenger Group Holdings Limited
TSE Chun Sing
Chairman

CHALLENGER GROUP HOLDINGS LIMITED
挑戰者集團控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8203)

30 April 2008

To the independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

We refer to the circular issued by the Company (the "**Circular**") to the Shareholders dated 30 April 2008, of which this letter forms part. Terms used in this letter shall bear the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Supply Agreement and the Annual Caps and to advise the independent Shareholders as to the fairness and reasonableness of the Supply Agreement and the Annual Caps, and to recommend how the independent Shareholders should vote at the EGM. Ample Capital has been appointed as the independent financial adviser to advise us and the independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 9 to 53 of the Circular, and the letter from Ample Capital to the Independent Board Committee and the independent Shareholders which contains its advice to us and the independent Shareholders in respect of the Supply Agreement and the Annual Caps as set out on pages 55 to 61 of the Circular.

Having taken into account the terms of the Supply Agreement and the Annual Caps and the advice from Ample Capital in relation thereto, we are of the view that the Supply Agreement and the Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Supply Agreement and the Annual Caps.

Yours faithfully,
Independent Board Committee
LIEW Swee Yean **SIU Siu Ling, Robert** **WONG Yun Kuen**
Independent non-executive Directors

* *For identification purpose only*

The following is the full text of a letter of advice from Ample Capital to the Independent Board Committee and the independent Shareholders in relation to the Supply Agreement and the Annual Caps, which has been prepared for the purpose of inclusion in this circular.

AmCap
Ample Capital Limited
豐盛融資有限公司

30 April 2008

To Independent Board Committee and the independent Shareholders of
Challenger Group Holdings Limited

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders on the terms of the Supply Agreement and the Annual Caps, details of which are set out in the circular (the "Circular") of the Company dated 30 April 2008 of which this letter forms part. Unless the context requires otherwise, terms used in this letter have the same meanings as defined in the Circular.

Mengxi HT holds 30% of equity interests in of each Mengxi Minerals and Mengxi Chemical. Upon the Acquisition Completion, Mengxi Chemical will become a non-wholly owned subsidiary of the Company and thus Mengxi HT will become a connected person of the Company at subsidiary level. Thus, the continuing transactions pursuant to the Supply Agreement (the "Continuing Connected Transactions") entered into between Mengxi Minerals and Mengxi Chemical constitute a continuing connected transaction for the Company under the GEM Listing Rules. The Directors expect that the applicable percentage ratios calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the supply of the Raw Coal under the Supply Agreement will, on an annual basis, be more than 2.5% and the annual consideration is expected to be more than HK$10 million. The Supply Agreement is therefore subject to the reporting, announcement and independent Shareholders' approval by way of poll requirements under Rules 20.45 to 20.54 and the requirements of annual review of continuing connected transactions under Rules 20.37 to 20.40 of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has interest in the Supply Agreement and no Shareholder shall be required to abstain from voting on the relevant resolution.

The Independent Board Committee, comprising all the independent non-executive directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling Robert and Dr. Wong Yun Kuen, has been established to advise the independent Shareholders on the terms of Supply Agreement and the Annual Caps.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and presentation provided to us by the Directors.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinion with regard to the Continuing Connected Transactions and the proposed caps of the Continuing Connected Transactions, we have considered the following principal factors and reasons:

1. Background and reason for entering into of the Supply Agreement

On 1 February 2008, the Group entered into the Sale and Purchase Agreement whereby the Group has agreed to purchase the Sale Shares and the Sale Loan for an aggregate consideration of up to HK$900 million. Upon the Acquisition Completion, Imare will become a wholly-owned subsidiary of the Company and the Imare Group will include Mengxi Chemical and Mengxi Minerals (which will be an associated company of Imare). As set out in the Letter from the Board, the Company has been contemplating various corporate exercises involving possible acquisitions of new businesses. The Acquisition represents an investment opportunity for the Group to diversify into the coking coal processing business and strengthen the Group's earnings base.

Mengxi Chemical will be the principal operating subsidiary of the Imare Group. Upon the Acquisition Completion, it will become a subsidiary of the Company. It has been granted by the Development and Reform Commission of Inner Mongolia Autonomous Region the right to own, build and operate a beneficiation plant of annual production capacity of 1.5 million tonnes and a coking coal plant of annual production capacity of 0.80 million tonnes situated at a site in the 鄂爾多斯市蒙西高新技術工業園 (Mengxi New High Technology Industrial Park at Erduosi City), Inner Mongolia Autonomous Region and to sell the resulting products. Up to the Latest Practicable Date, Mengxi Chemical has not yet commenced its business.

Mengxi Minerals will be an associated company of the Imare Group. It has been granted the mining licence (採礦許可証) of the Target Mine by the Ministry of Land and Resources of Inner Mongolia Autonomous Region for the right of exploitation of the Target Mine until August 2016. The mining licence enables Mengxi Mineral to commence exploitation on a trial basis after it has made filing of application for safety production permit (安全生產許可証) with the State Administration of Coal Mine Safety Supervision Bureau ("SACM"). The commercial operation of the Target Mine is subject to (i) a safety operation permit issued by relevant local office of the SACM; and (ii) the coal production permit granted by 內蒙古煤炭工業局 (Coal Industry Bureau of Inner Mongolia Autonomous Region) or its delegates. The Target Mine has a site area of approximately 7.946 sq. km. located in the Zhou Zi Shan Kulihuoshatu Coal Mine, Inner Mongolia Autonomous Region, the PRC. The estimated coal reserves of the Target Mine are approximately 99.60 million tonnes as at 30 November 2007. Save for the exploration work, no exploitation work has been commenced.

The Raw Coal is the principal raw material used by Mengxi Chemical for its production of coking coal, thermal coal, coke and coking by-products. The Supply Agreement grants an exclusive right to Mengxi Chemical to purchase the 99.60 million tonnes coal reserves of the Target Mine and thereby enable Mengxi Chemical a continuing supply of the Raw Coal for its production. The Supply Agreement also grants Mengxi Chemical a right to purchase the Raw Coal at a price that is capped at the prevailing market price thus ensuring the competitiveness of its products in the market place. Mengxi Chemical is therefore the sole customer of Mengxi Minerals but Mengxi Chemical is allowed to purchase the Raw Coal from suppliers other than Mengxi Minerals.

China is the world's largest coal-consuming country. According to BP Statistical Review of World Energy June 2007, a review conducted by BP p.l.c. (one of the world's largest energy companies), China's consumption of coal increased from 700.2 million tonnes oil equivalent in 1997 to 1191.3 million tonnes oil equivalent in 2006, representing an annual growth rate of approximately 6.08%. The consumption of coal in China represented approximately 38.6% of the world's consumption. The increased consumption of coal is correlated to China's economic growth. According to a forecast conducted by Centre for Forecasting Science, Chinese Academy of Science (中國科學院預測科學研究中心) in 2006, China's GDP is estimated to have an annual growth rate of approximately 8% between 2006 to 2010 and an annual growth rate of approximately 7-8% between 2011 to 2015. Accordingly, we are of the view that the coal demand in the PRC will continue to grow in the near future.

In view that (i) the Supply Agreement, which comprises an exclusivity arrangement, can offer Mengxi Chemical a stable and continuous supply of raw materials for carrying on its business; (ii) the price offered by Mengxi Minerals to Mengxi Chemical shall not be higher than the Market Price of the Raw Coal as discussed below, we consider the entering into of the Supply Agreement is in the interest of the Company and the Shareholders as a whole and is in the ordinary and usual course of business of the Group.

2. Principal terms of the Supply Agreement

(a) Pricing

The applicable price of the Raw Coal is determined on a cost-plus basis, which is determined as the cost of production of the Raw Coal (calculated based on the PRC generally accepted accounting standards adopted by general coal production enterprises of the PRC) plus a value added rate of 10%, subject to the condition that the applicable price shall not be higher than the Market Price of the Raw Coal. As confirmed by the Directors, the authoritative authorities in the Supply Agreement include those online organisations which provide information on coal price to subscribing members (including China Coal Resource website http://www.sxcoal.com).

The terms of the Supply Agreement was negotiated and agreed between the relevant parties to the Supply Agreement on an arm's length basis. The Directors consider that the terms of the Supply Agreement are fair and reasonable as far as the independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

We are of the view that as the purchase price is subject to the ceiling being the Market Price of the Raw Coal, the value added rate of 10% is acceptable. According to the management of the Company, the production cost of the Raw Coal was estimated by Mengxi Mineral to be RMB80 per tonne (without taking into account the 10% value added rate) while the Market Price of the Raw Coal as quoted from the website of 中國煤炭價格網(www.coalprice.cn) was around RMB260 per tonne in January 2008 (approximate to the date of the Supply Agreement), indicating that Mengxi Chemical can purchase the Raw Coal from Mengxi Minerals at a price lower than the market price even with the price determined with a value added rate of 10%.

In light that the purchase price of the Raw Coal shall not be higher than the Market Price of the Raw Coal, we concur with the Directors that the Supply Agreement is on normal commercial terms, fair and reasonable so far as the independent Shareholders are concerned.

(b) Payment terms

Mengxi Chemical shall pay Mengxi Minerals for the Raw Coal purchased within one month from the date of delivery of the Raw Coal to Mengxi Chemical by way of cash. As both Mengxi Chemical and Mengxi Minerals have not commenced operation, there was no similar purchase of the Raw Coal by Mengxi Chemical from independent third parties and no similar sale of the Raw Coal by Mengxi Minerals to independent third parties. As such, we are unable to compare the payment terms offered to Mengxi Chemical by Mengxi Minerals with those of the independent third parties. However, we are of the view that the one month's credit period is a reasonable time and sufficient for Mengxi Chemical to check if there are defective products or selling to third parties in case it is lack of cashflow and will not require large amount of working capital as in the case if deposit is needed or payment has to be made upon delivery.

(c) Other terms

Pursuant to the Supply Agreement, Mengxi Minerals shall supply, on an exclusive basis, and Mengxi Chemical shall purchase the Raw Coal extracted by Mengxi Minerals from the Target Mine. An annual plan which includes the quantity of the Raw Coal to be extracted or produced by Mengxi Minerals will be agreed between Mengxi Minerals and Mengxi Chemical each year. In other words, Mengxi Chemical is obliged to purchase all the Raw Coal extracted by Mengxi Minerals.

On the other hand, the Supply Agreement provides that Mengxi Chemical may assign part or all of the said agreement to third party to purchase the Raw Coal.

In view of the above, although Mengxi Chemical is obliged to purchase all the Raw Coal extracted by Mengxi Minerals, the quantity of the Raw Coal as produced or extracted by Mengxi Minerals is to be agreed annually between the parties to the Supply Agreement and Mengxi Chemical can assign part or all of the Supply Agreement to third party to purchase the Raw Coal, we consider such term is fair and reasonable having considered that Mengxi Chemical enjoys the exclusive right to purchase the Raw Coal.

3. Annual Caps

The Annual Caps for the sale of the Raw Coal by Mengxi Minerals to Mengxi Chemical for each of the three years ending 31 March 2011 are RMB180 million, RMB530 million and RMB800 million respectively. The Annual Caps are calculated after taking into account the anticipated production requirements of Mengxi Chemical with reference to (i) current market price and estimated mining cost of the Raw Coal and (ii) the applicable coal mining methods.

Since Mengxi Chemical has not yet commenced its operation, there was no similar purchase from Mengxi Minerals up to the Latest Practicable Date.

In assessing the reasonableness of the Annual Caps, we have discussed with the management of the Company the basis and assumptions underlying the determination of the Annual Caps. According to the Company, the Annual Caps are calculated by the management of the Company based on the estimated volume of purchases of the Raw Coal by Mengxi Chemical from Mengxi Minerals for the three years ending 31 March 2011 and the unit price of the Raw Coal with a buffer. It is forecasted by the management of the Company that the volume of purchases of the Raw Coal by Mengxi Chemical from Mengxi Minerals is 1 million tonnes, 2.8 million tonnes and 4 million tonnes respectively for the three years ending 31 March 2011 and the unit price of the Raw Coal used is RMB175 per tonne. Based on such estimated figures, the Company estimated that the purchases of the Raw Coal by Mengxi Chemical from Mengxi Minerals will be approximately RMB175 million, RMB490 million and RMB700 million for the three years ending 31 March 2011. To arrive at the Annual Caps, a buffer of RMB5 million, RMB40 million and RMB100 million has been added respectively on the estimated amount of purchase for the three years ending 31 March 2011, representing a buffer in the range of approximately 2.9% to 14.3%. We have discussed with the management of the Company the bases on arriving at the above three components: (i) the unit price of the Raw Coal, (ii) the estimated volume of purchases of the Raw Coal, and (iii) the buffer, and our analysis is set below.

The unit price of the Raw Coal used in the calculation, being RMB175, is the average of (i) the production cost of the Raw Coal estimated by Mengxi Mineral of RMB80 plus a value added rate of 10%, being approximately RMB90; and (ii) the market price of the Raw Coal in January 2008, being RMB260. Having considered that the price of the Raw Coal to be purchased from Mengxi Minerals will be determined on a cost-plus 10% basis subject to the ceiling of the Market Price of the Raw Coal, we considered that the unit price of the Raw Coal used in the determination of the Annual Caps is fair and reasonable.

We have discussed with the management of the Company on the determination of the forecast purchase volume of the Raw Coal and understand that in estimating the volume of purchases for the three years ending 31 March 2011, the management of the Company has taken into consideration of (i) the expected market demand of the coal products of Mengxi Chemical, (ii) anticipated production requirements of Mengxi Chemical, (iii) time needed for Mengxi Minerals to get the relevant approval and (iv) the production capacity of Mengxi Chemical. Mengxi Minerals can commence exploitation on a trial basis after it has made filing of application for safety production permit (安全生產許可証) with the SACM. The commercial operation of the Target Mine is subject to the safety operation permit and the coal production permit granted by 內蒙古煤炭工業局 (Coal Industry Bureau of Inner Mongolia Autonomous Region) or its delegates. According to the Directors, it is expected that it takes around 6-12 months upon the Acquisition Completion to obtain the above approvals. It is expected that Mengxi Minerals will commence supplying the Raw Coal to Mengxi Chemical when it commences commercial operation, which is expected to be around late 2008 or early 2009. Accordingly, the annual cap for the year ending 31 March 2009 is comparably small. Although the management of the Company has considered the production capacity of Mengxi Chemical in determining the Annual Caps, they are of the view that the quantity of the Raw Coal to be purchased under the Supply Agreement should not be limited by the existing production capacity of Mengxi Chemical as the Group can handle the additional raw coal by other means such as processing by subcontractors. Having considered the demand of coal in the PRC as set out in the section headed "1. Background and reason for entering into of the Supply Agreement" above and that the purchase price of the Raw Coal is likely to be lower than the Market Price as demonstrated in the section headed "2. Principal terms of the Supply Agreement" above, we concur with the view of the Directors. In view of the above and taking into consideration that both Mengxi Minerals and Mengxi Chemical have not yet commenced operation, we consider that the volume of purchases of the Raw Coal by Mengxi Chemical was estimated by the management of the Company on a fair and reasonable basis.

As mentioned above, buffer has been added to arrive at the Annual Caps. According to the Directors, the buffer is added to cater for possible fluctuations and adjustments in the purchase price and quantity of the Raw Coal. We are of the view that adding buffer to calculate the Annual Caps is reasonable having considered that: (i) Mengxi Chemical has not yet commenced its operation and there was no similar purchase from Mengxi Minerals up to the Latest Practicable Date; (ii) the price of the Raw Coal is subject to continuous fluctuation driven by the demand and supply of coal products which in turn are caused by numerous factors out of the Company's control such as global and domestic economic and political conditions and competition from other energy sources and the rate of growth and expansion in industries with high coal demand, such as the power and steel industries. According to National Bureau of Statistics of China, the selling price of raw coal in the PRC in March 2008 showed a rise of 27.4% compared with the same month in 2007.

In addition, the annual cap for the year ending 31 March 2010 and 2011 represents an annual increase of approximately 194% and 51% respectively compared with the annual cap of the previous year. Such an increase was resulted from: (i) Mengxi Minerals only commence full year operation in 2010 and (ii) the expected market demand of the coal products of Mengxi Chemical; (iii) the time needed for Mengxi Chemical to develop its business as it is newly started up. Based on the market demand of coal in China as set out in the section headed "1. Background and reason for entering into of the Supply Agreement" above and the above factors, we consider that such an increase in annual cap is commensurate with the growth in demand of coal and is reasonable.

In view of the above analysis, we are of the view that the Annual Caps are determined on a fair and reasonable basis as far as the Company and the Shareholders as a whole are concerned.

4. Recommendation

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the entering into of the Supply Agreement is in the ordinary and usual course of business of the Group and the terms of Supply Agreement are on normal commercial terms. Moreover, we are of the opinion that the Supply Agreement and the Annual Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Company and the Shareholders are concerned. We therefore advise the independent Shareholders and advise Independent Board Committee to recommend the independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supply Agreement and the Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
Ample Capital Limited
H. W. Tang
President

Set out below is a summary of the audited consolidated income statements of the Group for the years ended 31 March 2005, 2006 and 2007 and the audited consolidated balance sheets of the Group as at 31 March 2005, 2006 and 2007 as extracted from the Company's annual report of year 2005, 2006 and 2007. The auditors of the Company have given an unqualified opinion on the Group's financial statements for the years ended 31 March 2005, 2006 and 2007.

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 March		
		2005	**2006**	**2007**
	Note	*HK$*	*HK$*	*HK$*
Turnover	6	161,634,992	252,032,927	299,298,481
Cost of goods sold		(104,727,747)	(163,498,632)	(200,308,299)
Gross profit		56,907,245	88,534,295	98,990,182
Other income	7	778,975	1,619,288	1,879,226
Selling and distribution costs		(20,722,302)	(28,338,973)	(40,571,027)
Administrative and other operating expenses		(33,450,768)	(40,385,621)	(43,606,641)
Profit from operations		3,513,150	21,428,989	16,691,740
Finance costs	8	(461,088)	(457,606)	(748,945)
Profit before tax		3,052,062	20,971,383	15,942,795
Income tax credit/(expense)	9	55,009	(23,299)	(69,000)
Profit for the year attributable to equity holders of the Company	10	3,107,071	20,948,084	15,873,795
Dividends	12	–	–	–
Basic earnings per share (cents)	13	0.58	3.88	2.94

CONSOLIDATED BALANCE SHEETS

		At 31 March		
		2005	**2006**	**2007**
	Note	*HK$*	*HK$*	*HK$*
Non-current assets				
Fixed assets	16	11,408,750	13,142,328	18,313,143
Prepaid land lease payments	17	1,379,624	1,362,266	1,389,653
Intangible asset	18	–	–	334,463
		12,788,374	14,504,594	20,037,259
Current assets				
Inventories	20	9,915,294	11,957,104	18,540,920
Trade and bills receivables	21	24,097,165	50,775,326	50,008,088
Deposits, prepayments and other receivables		2,818,534	2,810,735	4,689,931
Current tax assets		635,046	197,674	184,754
Pledged bank deposits	27(i)	5,040,342	3,521,425	3,521,425
Bank and cash balances	22	14,801,535	24,362,335	46,185,811
		57,307,916	93,624,599	123,130,929
Less: **Current liabilities**				
Trade and bills payables	23	23,625,995	32,167,255	39,457,334
Other payables and accruals		12,492,752	21,430,911	28,895,381
Dividend payables		379,103	97,769	14,489
Sales deposits received		5,544,559	8,618,261	8,330,144
Short term borrowings	24	10,903,838	7,116,418	10,091,277
Current portion of long term borrowings	25	354,124	317,632	281,922
		53,300,371	69,748,246	87,070,547
Net current assets		4,007,545	23,876,353	36,060,382
Total assets less current liabilities		16,795,919	38,380,947	56,097,641
Non-current liabilities				
Long term borrowings	25	674,537	780,875	480,811
NET ASSETS		16,121,382	37,600,072	55,616,830
Capital and reserves				
Share capital	26(a)	5,400,000	5,400,000	5,400,000
Reserves		10,721,382	32,200,072	50,216,830
TOTAL EQUITY		16,121,382	37,600,072	55,616,830

BALANCE SHEETS

		At 31 March		
		2005	**2006**	**2007**
	Note	*HK$*	*HK$*	*HK$*
Non-current assets				
Investments in subsidiaries	19	200,000	200,000	200,000
Current assets				
Prepayments and other receivables		182,750	151,075	153,653
Amount due from subsidiaries	19	5,803,410	7,886,624	9,615,777
Pledged bank deposits	27(i)	5,040,342	3,521,425	3,521,425
Bank balances		3,034,967	3,142,813	157,783
		14,061,469	14,701,937	13,448,638
Less: **Current liabilities**				
Accruals		678,176	2,283,030	1,812,876
Net current assets		13,383,293	12,418,907	11,635,762
NET ASSETS		13,583,293	12,618,907	11,835,762
Capital and reserves				
Share capital	26(a)	5,400,000	5,400,000	5,400,000
Reserves		8,183,293	7,218,907	6,435,762
TOTAL EQUITY		13,583,293	12,618,907	11,835,762

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Reserves				
	Share capital HK$	Share premium (note (i)) HK$	Merger reserve (note (ii)) HK$	Foreign currency translation reserve HK$	Retained profits HK$	Total HK$
At 1 April 2004	5,400,000	9,536,387	(122,000)	(48,074)	(1,752,002)	13,014,311
Profit for the year	–	–	–	–	3,107,071	3,107,071
At 31 March 2005 and 1 April 2005	5,400,000	9,536,387	(122,000)	(48,074)	1,355,069	16,121,382
Translation difference	–	–	–	530,606	–	530,606
Net income recognised directly in equity	–	–	–	530,606	–	530,606
Profit for the year	–	–	–	–	20,948,084	20,948,084
Total recognised income and expense for the year	–	–	–	530,606	20,948,084	21,478,690
At 31 March 2006 and 1 April 2006	5,400,000	9,536,387	(122,000)	482,532	22,303,153	37,600,072
Translation difference	–	–	–	2,142,963	–	2,142,963
Net income recognised directly in equity	–	–	–	2,142,963	–	2,142,963
Profit for the year	–	–	–	–	15,873,795	15,873,795
Total recognised income and expense for the year	–	–	–	2,142,963	15,873,795	18,016,758
At 31 March 2007	5,400,000	9,536,387	(122,000)	2,625,495	38,176,948	55,616,830

Note:

(i) Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to a solvency test on the Company and the provisions of the Articles of Association of the Company.

(ii) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the corporate reorganisation details of which are set out in the Company's prospectus dated 31 December 2003.

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	3,052,062	20,971,383	15,942,795
Adjustments for:			
Depreciation	2,168,720	2,398,290	2,566,051
Amortisation of prepaid land lease payments	36,627	37,153	38,257
Amortisation of intangible asset	–	–	54,837
Loss on disposal of fixed assets	279,622	67,867	77,991
Finance costs	461,088	457,606	748,945
Interest income	(24,542)	(214,538)	(587,467)
Operating profit before working capital changes	5,973,577	23,717,761	18,841,409
Increase in inventories	(4,422,037)	(2,041,810)	(6,583,816)
(Increase)/decrease in trade and bills receivables	(11,554,041)	(26,678,161)	767,238
Decrease/(increase) in deposits, prepayments and other receivables	529,186	7,799	(1,879,196)
Increase in trade and bills payables	6,479,202	8,541,260	7,290,079
Increase in other payables and accruals	1,195,334	8,938,159	7,464,470
Increase/(decrease) in sales deposits received	3,119,720	3,073,702	(288,117)
Cash generated from operations	1,320,941	15,558,710	25,612,067
Interest paid	(461,088)	(457,606)	(748,945)
Hong Kong profits tax (paid)/refund	(715,728)	414,073	(56,080)
Overseas income tax paid	(4,688)	–	–
Net cash from operating activities	139,437	15,515,177	24,807,042
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend paid	(201,290)	(281,334)	(83,280)
Interest received	24,542	214,538	587,467
Purchase of fixed assets	(1,246,751)	(3,593,535)	(7,331,285)
Purchase of intangible asset	–	–	(389,300)
Proceeds from disposal of fixed assets	3,000	–	21,097
(Increase)/decrease in pledged bank deposits	(40,304)	1,518,917	–
Net cash used in investing activities	(1,460,803)	(2,141,414)	(7,195,301)

CONSOLIDATED CASH FLOW STATEMENTS *(continued)*

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans	(1,410,784)	(3,109,966)	(4,133,124)
Bank loans raised	3,342,700	2,884,500	5,041,650
Net borrowings/(repayment) of trust receipt and trade financing loans	3,638,425	(396,492)	1,826,039
Repayment of finance lease payables	(65,950)	(169,522)	(235,970)
Net cash from/(used in) financing activities	5,504,391	(791,480)	2,498,595
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,183,025	12,582,283	20,110,336
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	410,245	1,713,140
	4,183,025	12,992,528	21,823,476
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,186,782	11,369,807	24,362,335
CASH AND CASH EQUIVALENTS AT END OF YEAR	11,369,807	24,362,335	46,185,811
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	14,801,535	24,362,335	46,185,811
Bank overdraft-secured	(3,431,728)	–	–
	11,369,807	24,362,335	46,185,811

NOTES TO THE FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 MARCH 2005, 2006 AND 2007

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 3/F., Sunning Plaza, 10 Hysan Avenue, Causeway Bay, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company is an investment holding company.

2. ADOPTION OF NEW AND REVISED HKFRSs

For the purpose of the Financial Information, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the Financial Information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4 to the Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below:

(a) Consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% – 4.5%
Leasehold improvements	30%
Plant and machinery	9%
Office equipment	15% – 18%
Furniture and fixtures	10%
Moulds	30%
Motor vehicles	18% – 30%

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(d) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the balance sheet as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

(e) Intangible asset

Intangible asset that is acquired by the Group is stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible asset is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of intangible asset unless such life is indefinite. Intangible asset with an indefinite useful life is systematically tested for impairment at each balance sheet date. Intangible asset is amortised from the date it is available for use. The estimated useful life of license is five years from the date it is available for use according to the agreement entered by the Group and the licensor.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Trade, bills and other receivables

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(h) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(i) Financial liability and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are stated initially at their fair value and 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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Service income is recognised in the period when services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(l) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

(m) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

(n) Taxation

Income tax represents the sum of the current tax and deferred tax.

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

Deferred tax is 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 profits will be available against which deductible temporary differences, unused tax losses or unused tax credits 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.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(o) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of fixed assets, inventories and trade and bills receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(q) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(s) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the Financial Information when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions 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, are discussed below.

Fixed assets and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Recoverability of trade and bills receivables

The Group considered the recoverability of the trade and bills receivables arising from the sales of the goods, which is included in its balance sheets at 31 March 2005, 2006 and 2007 at HK$24,097,165, HK$50,775,326 and HK$50,008,088 respectively. In making judgement for the recoverability of the trade and bills receivables, the Group considers the historical payment record and creditability of the debtors. The recoverability of the trade and bills receivables will be closely monitored and adjustments made in future periods, if the non-recovery of trade and bills receivables arises.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, Renminbi ("RMB"), United States dollars ("US$") and Euro ("EUR"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade and bills receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to interest-rate risk arises from its long-term borrowings. These borrowings bear interests at variable rates varied with the then prevailing market condition.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. TURNOVER

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Turnover			
Sales of goods	161,634,992	252,032,927	299,298,481

7. OTHER INCOME

	Year ended 31 March		
	2005	2006	2007
	HK$	*HK$*	*HK$*
Bad debts recovered	41,802	–	–
Government grants	–	–	328,812
Interest income	24,542	214,538	587,467
Service income	619,754	740,487	–
Sundry income	92,877	664,263	962,947
	778,975	1,619,288	1,879,226

8. FINANCE COSTS

	Year ended 31 March		
	2005	2006	2007
	HK$	*HK$*	*HK$*
Finance lease charges	10,278	22,100	25,627
Interest on bank loans and overdrafts	450,810	435,506	723,318
	461,088	457,606	748,945

9. INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 March		
	2005	2006	2007
	HK$	*HK$*	*HK$*
Current tax - Hong Kong Profits Tax			
– provision for the year	–	–	69,000
– (over)/underprovision in prior years	(2,683)	23,299	–
	(2,683)	23,299	69,000
PRC enterprise income tax			
– overprovision in prior years	(52,326)	–	–
	(55,009)	23,299	69,000

Hong Kong Profits Tax is provided at 17.5% based on assessable profit for the year less allowable losses brought forward. Certain allowable losses of the subsidiaries of the Company incorporated in Hong Kong are yet to be agreed by the Inland Revenue Department.

Pursuant to the relevant laws and regulations in the PRC, Zhaoqing Ultra Furniture Company Limited, a wholly-owned subsidiary established in Zhaoqing, the PRC is subject to enterprise income tax rate at 24% on its taxable profit in accordance with 中華人民共和國外商投資企業和外國企業所得稅法. However, it is exempted from enterprise income tax for two years starting from the first year of profitable operation after off-setting prior year tax losses, followed by a 50% reduction for the next three years.

At 31 March 2005, 2006 and 2007, the Group has unused tax losses, that can be carried forward indefinitely, approximately to HK$16,488,000, HK$9,491,000 and HK$7,706,000 respectively. These tax losses are available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams.

No provision for deferred taxation has been made in the financial statements as the tax effect of temporary differences is not material to the Group.

The reconciliation between the income tax (credit)/expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Profit before tax	3,052,062	20,971,383	15,942,795
Tax at the domestic income tax rate of 17.5%	534,111	3,669,992	2,789,989
Tax effect of income that is not taxable	(96)	(17,284)	(31,630)
Tax effect of expenses that is not deductible	20,780	19,547	238,718
Tax effect of profits that is exempted from PRC tax authority	(1,598,790)	(2,557,366)	(2,434,297)
Tax effect of utilisation of tax losses not previously recognised	–	(1,224,693)	(343,541)
Tax effect of unused tax losses not recognised	1,004,531	–	–
Temporary difference not recognised	39,464	109,804	(150,239)
(Over)/underprovision in prior years	(55,009)	23,299	–
Income tax (credit)/expense	(55,009)	23,299	69,000

10. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group's profit for the year attributable to equity holders of the Company is stated after crediting and charging the following:

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Crediting			
Bad debts recovered	41,802	–	–
Net exchange gains	37,046	–	–
Charging			
Amortisation of intangible asset (included in administrative and other operating expenses)	–	–	54,837
Auditors' remuneration	484,455	501,057	556,460
Cost of inventories sold before allowance	81,786,414	123,885,427	149,424,876
(Write back)/addition of allowance for obsolete inventories	(244,883)	691,053	496,351
	81,541,531	124,576,480	149,921,227
Depreciation	2,168,720	2,398,290	2,566,051
Loss on disposal of fixed assets	279,622	67,867	77,991
Operating lease rentals in respect of land and buildings	4,569,334	5,470,301	7,744,075
Staff costs (including directors' emoluments *(note 14)*)			
Basic salaries, bonuses, allowances and benefits in kind	25,691,371	32,701,254	40,389,769
Retirement benefits scheme contributions	2,218,575	2,753,257	2,882,300
Allowance for doubtful debts	7,249	711,135	1,359,213
Net exchange losses	–	479,543	762,497

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the years ended 31 March 2005, 2006 and 2007 included losses of approximately HK$1,328,365, HK$964,386 and HK$783,145 respectively, which have been dealt with in the Financial Information of the Company.

12. DIVIDENDS

No dividend has been paid or declared by the Company for the years ended 31 March 2005, 2006 and 2007.

13. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of HK$3,107,071, HK$20,948,084 and HK$15,873,795 and on the weighted average number of ordinary shares of 540,000,000, 540,000,000, 540,000,000 in issue during the years ended 31 March 2005, 2006 and 2007 respectively.

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 March 2005, 2006 and 2007.

14. DIRECTORS' EMOLUMENTS

	Year ended 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Executive directors			
Basic salaries, bonuses, allowances and benefits in kind	2,558,106	4,267,503	3,726,297
Retirement benefits scheme contributions	26,000	24,000	24,000
Independent non-executive directors			
Fees	60,000	60,000	69,984
	2,644,106	4,351,503	3,820,281

There was no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Periods.

No option was granted to any directors under the share option scheme during the Relevant Periods.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

15. RETIREMENT BENEFITS

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

16. FIXED ASSETS

Group

	Buildings	Leasehold improvements	Plant and machinery	Office equipment	Furniture and fixtures	Moulds	Motor vehicles	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost									
At 1 April 2004	5,682,253	3,404,645	4,057,670	5,287,482	3,536,972	1,307,360	424,761	–	23,701,143
Additions	–	107,406	934,297	432,099	3,900	3,690	260,259	–	1,741,651
Disposal	–	(162,802)	(9,432)	(549,188)	(239,822)	–	(77,571)	–	(1,038,815)
At 31 March 2005 and 1 April 2005	5,682,253	3,349,249	4,982,535	5,170,393	3,301,050	1,311,050	607,449	–	24,403,979
Additions	–	795,250	1,080,734	1,306,893	142,756	1,000	471,334	260,402	4,058,369
Disposals	–	–	(153,855)	(26,056)	–	–	–	–	(179,911)
Translation difference	80,449	31,772	74,797	24,940	28,764	–	–	–	240,722
At 31 March 2006 and 1 April 2006	5,762,702	4,176,271	5,984,211	6,476,170	3,472,570	1,312,050	1,078,783	260,402	28,523,159
Additions	1,621,421	1,391,416	2,126,239	1,620,473	359,680	–	151,700	60,356	7,331,285
Disposals	–	(343,561)	(72,404)	(128,614)	–	–	(348,000)	–	(892,579)
Transfer	273,085	–	–	–	–	–	–	(273,085)	–
Translation difference	277,019	138,040	316,855	112,681	105,685	–	–	12,683	962,963
At 31 March 2007	7,934,227	5,362,166	8,354,901	8,080,710	3,937,935	1,312,050	882,483	60,356	35,924,828
Accumulated depreciation									
At 1 April 2004	1,232,910	1,853,337	2,864,489	2,690,208	1,240,308	1,284,629	416,821	–	11,582,702
Charge for the year	128,210	666,958	421,798	612,053	287,308	19,485	32,908	–	2,168,720
Written back on disposal	–	(162,802)	(8,591)	(417,914)	(89,420)	–	(77,466)	–	(756,193)
At 31 March 2005 and 1 April 2005	1,361,120	2,357,493	3,277,696	2,884,347	1,438,196	1,304,114	372,263	–	12,995,229
Charge for the year	48,332	617,785	621,277	667,057	295,980	3,531	144,328	–	2,398,290
Disposals	-	–	(97,127)	(14,917)	–	–	–	–	(112,044)
Translation difference	17,740	18,814	47,000	9,446	6,356	–	–	–	99,356
At 31 March 2006 and 1 April 2006	1,427,192	2,994,092	3,848,846	3,545,933	1,740,532	1,307,645	516,591	–	15,380,831
Charge for the year	120,644	563,561	397,859	911,274	304,966	2,759	264,988	–	2,566,051
Disposals	–	(343,561)	(40,057)	(61,873)	–	–	(348,000)	–	(793,491)
Translation difference	67,913	95,517	201,594	56,068	37,202	–	–	–	458,294
At 31 March 2007	1,615,749	3,309,609	4,408,242	4,451,402	2,082,700	1,310,404	433,579	–	17,611,685
Carrying amount									
At 31 March 2007	6,318,478	2,052,557	3,946,659	3,629,308	1,855,235	1,646	448,904	60,356	18,313,143
At 31 March 2006	4,335,510	1,182,179	2,135,365	2,930,237	1,732,038	4,405	562,192	260,402	13,142,328
At 31 March 2005	4,321,133	991,756	1,704,839	2,286,046	1,862,854	6,936	235,186	–	11,408,750

At 31 March 2005, 2006 and 2007, the carrying amount of the Group's buildings situated in the PRC amounted to HK$4,227,687, HK$4,196,041 and HK$4,303,528 pledged as security for the Group's banking facilities.

At 31 March 2005, 2006 and 2007, the carrying amount of plant and machinery and motor vehicles held by the Group under finance leases amounted to HK$460,420, HK$637,717 and HK$498,679.

17. PREPAID LAND LEASE PAYMENTS

Group

	HK$
Cost	
At 1 April 2004, 31 March 2005 and 1 April 2005	1,650,626
Translation difference	23,683
At 31 March 2006 and 1 April 2006	1,674,309
Translation difference	81,547
At 31 March 2007	1,755,856
Accumulated amortisation	
At 1 April 2004	234,375
Charge for the year	36,627
At 31 March 2005 and 1 April 2005	271,002
Charge for the year	37,153
Translation difference	3,888
At 31 March 2006 and 1 April 2006	312,043
Charge for the year	38,257
Translation difference	15,903
At 31 March 2007	366,203
Carrying amount	
At 31 March 2007	1,389,653
At 31 March 2006	1,362,266
At 31 March 2005	1,379,624

At 31 March 2005, 2006 and 2007, the carrying amount of the Group's prepaid land lease payments represents payments for land use rights situated in the PRC held under medium term leases amounted to HK$1,379,624, HK$1,362,266 and HK$1,389,653 pledged as security for the Group's banking facilities.

18. INTANGIBLE ASSET

Group

	License
	HK$
Cost	
At 1 April 2004, 31 March 2005, 1 April 2005, 31 March 2006 and 1 April 2006	–
Additions	389,300
At 31 March 2007	389,300
Accumulated amortisation	
At 1 April 2004, 31 March 2005, 1 April 2005, 31 March 2006 and 1 April 2006	–
Charge for the year	54,837
At 31 March 2007	54,837
Carrying amount	
At 31 March 2007	334,463
At 31 March 2006	–
At 31 March 2005	–

19. INVESTMENTS IN SUBSIDIARIES

		Company At 31 March	
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Unlisted investments, at cost	200,000	200,000	200,000

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

20. INVENTORIES

		Group At 31 March	
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Raw materials	7,144,050	8,932,461	10,649,370
Work in progress	1,738,816	1,360,966	1,916,865
Finished goods	2,330,748	3,669,669	8,566,445
Less: Allowance of obsolete inventories	(1,298,320)	(2,005,992)	(2,591,760)
	9,915,294	11,957,104	18,540,920

21. TRADE AND BILLS RECEIVABLES

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Trade and bills receivables	25,442,375	52,840,646	53,485,251
Less: Allowance for doubtful debts	(1,345,210)	(2,065,320)	(3,477,163)
	24,097,165	50,775,326	50,008,088

The credit terms of trade and bills receivables are in accordance with specific payment schedules agreed with various customers. The aging analysis of trade and bills receivables, based on the invoice date, and net of allowance, is as follows:

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
0 – 30 days	11,517,540	15,885,992	22,490,435
31 – 60 days	2,687,379	7,663,282	6,275,748
61 – 90 days	3,022,544	14,083,781	4,257,967
Over 90 days	8,214,912	15,207,591	20,461,101
Less: Allowance for doubtful debts	(1,345,210)	(2,065,320)	(3,477,163)
	24,097,165	50,775,326	50,008,088

Included in trade and bills receivables less allowance for doubtful debts are the following amounts denominated in a currency other than the presentation currency of the Group:

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
US$	103,402	618,784	112,744
RMB	13,786,499	26,326,277	29,013,097
	13,889,901	26,945,061	29,125,841

22. BANK AND CASH BALANCES

Included in the bank and cash balances are the following amounts denominated in a currency other than the presentation currency of the Group:

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
US$	55,003	1,724,584	4,278,062
RMB	6,186,304	5,932,102	10,241,857
	6,241,307	7,656,686	14,519,919

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
0 – 30 days	10,471,995	13,911,905	21,317,075
31 – 60 days	4,536,276	9,009,638	8,197,644
61 – 90 days	3,635,259	4,777,133	5,748,462
Over 90 days	4,982,465	4,468,579	4,194,153
	23,625,995	32,167,255	39,457,334

Included in trade payables are the following amounts denominated in a currency other than the presentation currency of the Group:

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
US$	246,603	1,147,909	1,499,261
RMB	18,309,480	22,555,883	24,509,743
EUR	375,890	2,501,056	5,846,968
Others	1,041	229,529	1,058
	18,933,014	26,434,377	31,857,030

24. SHORT TERM BORROWINGS

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Bank loans – secured *(note 27)*	2,843,700	2,884,500	4,033,320
Trust receipt and trade financing loans – secured *(note 27)*	4,628,410	4,231,918	6,057,957
Bank overdrafts – secured *(note 27)*	3,431,728	–	–
	10,903,838	7,116,418	10,091,277

The trust receipt and trade financing loans denominated in Hong Kong dollar are HK$1,625,832, HK$1,622,637, and HK$2,393,389 as at 31 March 2005, 2006 and 2007 respectively. The trust receipt and trade financing loans denominated in US$ are HK$3,002,578, HK$2,609,281 and HK$3,664,568 as at 31 March 2005, 2006 and 2007 respectively. The bank loans denominated in RMB are arranged at a fixed rate of 5.8%, 6.0% and 6.1% per annum for 2005, 2006 and 2007 respectively and expose the Group to fair value interest rate risk. Trust receipt and trade financing loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk with the interest rate of 6%, 6.9% and 8.2% as 31 March 2005, 2006 and 2007 respectively. The bank overdrafts denominated in Hong Kong dollars are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

25. LONG TERM BORROWINGS

	Group At 31 March 2005 HK$	2006 HK$	2007 HK$
Interest bearing borrowings			
Bank loans – secured *(note 27)*	599,711	374,245	274,441
Obligations under finance leases	428,950	724,262	488,292
	1,028,661	1,098,507	762,733
Current portion of long term borrowings	(354,124)	(317,632)	(281,922)
	674,537	780,875	480,811

(a) The bank loans are repayable as follows:

	Group At 31 March 2005 HK$	2006 HK$	2007 HK$
Within one year	225,466	99,804	99,804
In the second year	99,804	99,804	99,804
In the third to fifth years inclusive	274,441	174,637	74,833
	599,711	374,245	274,441

(b) Obligations under finance leases are repayable as follows:

	Group At 31 March 2005			2006			2007		
	Present value of the minimum lease payments HK$	Interest expenses relating to future periods HK$	Total minimum lease payments HK$	Present value of the minimum lease payments HK$	Interest expenses relating to future periods HK$	Total minimum lease payments HK$	Present value of the minimum lease payments HK$	Interest expenses relating to future periods HK$	Total minimum lease payments HK$
Within one year	128,658	14,178	142,836	217,828	43,676	261,504	182,118	20,442	202,560
In the second year	133,386	9,450	142,836	181,298	21,255	202,553	158,240	17,416	175,656
In the third to fifth years inclusive	166,906	13,845	180,751	325,136	17,787	342,923	147,934	15,912	163,846
	428,950	37,473	466,423	724,262	82,718	806,980	488,292	53,770	542,062

The bank loans and obligations under finance leases are denominated in Hong Kong dollars.

Bank loans of HK$599,711, HK$374,245 and HK$274,441 are arranged at floating rates and thus exposing the Group to cash flow interest rate risk. The interest rates were 6%, 7.2% and 8.8% at 31 March 2005, 2006 and 2007 respectively.

The average effective borrowing rate of the obligations under finance leases was 3.6%, 5.1% and 6.1% at 31 March 2005, 2006 and 2007 respectively. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent liabilities.

26. SHARE CAPITAL

(a) Shares

	Company At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Authorised:			
10,000,000,000 ordinary shares of HK$0.01 each	100,000,000	100,000,000	100,000,000
Issued and fully paid:			
540,000,000 ordinary shares of HK$0.01 each	5,400,000	5,400,000	5,400,000

(b) Share option scheme

A share option scheme was adopted by the then shareholders of the Company by way of written resolution passed on 9 December 2003. Details of the scheme are set out in the Report of the Directors set out in the Company's annual report issued on 15 June 2005, 21 June 2006 and 21 June 2007 respectively.

As at 31 March 2005, 31 March 2006 and 31 March 2007, no option has been granted or agreed to be granted under the share option scheme.

27. BANKING FACILITIES

At 31 March 2005, 2006 and 2007, the Group has been granted banking facilities totaling HK$14.4 million, HK$18.2 million and HK$25.3 million of which HK$13.2 million, HK$11.1 million and HK$17.4 million respectively were utilised and were secured by the following:

(i) Pledge of fixed deposits of approximately HK$5.0 million, HK$3.5 million and HK$3.5 million plus subsequent accrued interest as at 31 March 2005, 2006 and 2007 respectively;

(ii) Corporate guarantees executed by the Company and three subsidiaries of the Company;

(iii) Legal charge on prepaid land lease payments and buildings owned by a subsidiary (note 16 and 17).

28. CONTINGENT LIABILITIES

At 31 March 2005, 2006 and 2007 there were contingent liabilities in respect of bills of exchange discounted to a bank with recourse amounted to HK$1,319,580, HK$Nil and HK$Nil respectively.

At 31 March 2007 the Group is a co-defendant with a Group's staff in a lawsuit brought by a party in a personal injury claim involving a traffic accident. The Group and its insurance company have been contesting the claim, and while the final outcome of the proceedings is uncertain, it is the directors' opinion that the ultimate liability, if any, will not have a material impact on the Group's financial position. (2005: HK$Nil and 2006:HK$Nil)

29. CAPITAL COMMITMENTS

The Group's capital commitments at the respective balance sheet dates are as follows:

	Group At 31 March		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Contracted but not provided for			
– construction of factory premises	–	871,294	–

30. LEASE COMMITMENTS

At 31 March 2005, 2006 and 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group At 31 March 2005 *HK$*	 2006 *HK$*	 2007 *HK$*
Within one year	3,900,820	5,793,127	7,564,900
In the second to fifth years inclusive	1,719,803	9,410,673	7,451,312
	5,620,623	15,203,800	15,016,212

31. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the Financial Information, the Group had the following transactions with its related parties during the years:

	Group At 31 March 2005 *HK$*	 2006 *HK$*	 2007 *HK$*
Sales to:			
– Ms. Cho Yuen Yi, Wendy	–	–	30,227
– James T. W. Kong & Co.	–	–	34,085

Mr. Kong Tze Wing, a former director of the Company, has beneficial interest in James T.W. Kong & Co.

32. EVENTS AFTER THE BALANCE SHEET DATE

On 3 July 2007, the Group subscribed for 51% of the entire issued share capital of Global On-Line Distribution Limited ("Global On-Line") as enlarged by the issue of new shares at a cash consideration of HK$5,100. The Group will also advance HK$2,250,000 to Global On-Line of which HK$1,000,000 has been advanced on 3 July 2007. Upon completion of the share subscription, it is expected that the Group's total assets and total liabilities will be increased by approximately HK$2.1 million and HK$2.1 million respectively. The figures are extracted from the management accounts of Global On-Line as at 3 July 2007.

On 24 July 2007, the Group subscribed for 51% of the entire share capital of Long Capital Development Limited ("Long Capital") as enlarged by the issue of new shares at a cash consideration of HK$10,000,000. Long Capital is the legal and beneficial owner of the entire issued share capital of Challenger Auto Services Limited ("CHALLENGER"). Save for the information as disclosed in the Company's circular dated 26 July 2007, the other financial information related to this transaction is not yet available as the management accounts of CHALLENGER up to the closing date has not been completed as at the date of this report.

On 20 August 2007, the Group entered into an agreement to dispose of its entire equity interest in Ultra Group Company Limited, a wholly-owned subsidiary of the Company, to a third party at a consideration of US$13.28 million.

The disposal of Ultra Group Company Limited is not considered as a discontinued operation as at 31 March 2007 since the sale was not highly probable as at 31 March 2007 in accordance with HKFRS 5 "Non-current Assets Hold for Sale and Discontinued Operation."

33. SEGMENT INFORMATION

Sale of office furniture is the only business segment of the Group. Accordingly no further business segment information is provided.

In determining the Group's geographical segments, the Group's revenue and results for the year and segment assets and liabilities are attributable to the segments based on the location of customers.

Geographical segments

Segment information about the geographical markets for the year is presented as follows:

For the year ended 31 March 2005

	Hong Kong	The PRC	Overseas	Total
	HK$	*HK$*	*HK$*	*HK$*
Revenue				
Sales to external customers	49,745,414	96,485,661	15,403,917	161,634,992
Results				
Segment results	864,716	15,155,785	4,750,498	20,770,999
Unallocated corporate expenses				(18,036,824)
Other income (excluding interest income)				754,433
Operating profit				3,488,608
Finance costs				(461,088)
Interest income				24,542
Profit before tax				3,052,062
Income tax credit				55,009
Profit for the year attributable to equity holders of the Company				3,107,071

As at 31 March 2005

	Hong Kong	The PRC	Overseas	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Assets					
Segment assets	12,333,206	16,958,589	1,046,002	39,758,493	70,096,290
Liabilities					
Segment liabilities	7,949,579	5,086,218	729,764	40,209,347	53,974,908
Other Information					
Capital expenditure	441,426	248,072	–	1,052,153	1,741,651
Depreciation and amortisation	545,450	847,871	–	775,399	2,168,720
Allowance for doubtful debts	–	7,249	–	–	7,249

For the year ended 31 March 2006

	Hong Kong	The PRC	Overseas	Total
	HK$	*HK$*	*HK$*	*HK$*
Revenue				
Sales to external customers	79,178,307	125,831,509	47,023,111	252,032,927
Results				
Segment results	7,872,506	19,415,123	15,263,603	42,551,232
Unallocated corporate expenses				(22,741,531)
Other income (excluding interest income)				1,404,750
Operating profit				21,214,451
Finance costs				(457,606)
Interest income				214,538
Profit before tax				20,971,383
Income tax expense				(23,299)
Profit for the year attributable to equity holders of the Company				20,948,084

As at 31 March 2006

	Hong Kong	The PRC	Overseas	Unallocated	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Assets					
Segment assets	16,121,315	31,444,226	10,631,810	49,931,842	108,129,193
Liabilities					
Segment liabilities	8,837,884	8,524,315	6,627,200	46,539,722	70,529,121
Other Information					
Capital expenditure	1,243,399	881,983	–	1,932,987	4,058,369
Depreciation and amortisation	606,349	862,636	–	929,305	2,398,290
Allowance for doubtful debts	240,000	471,135	–	–	711,135

For the year ended 31 March 2007

	Hong Kong *HK$*	The PRC *HK$*	Overseas *HK$*	Total *HK$*
Revenue				
Sales to external customers	92,466,330	145,060,229	61,771,922	299,298,481
Results				
Segment results	18,895,910	30,757,314	19,654,738	69,307,962
Unallocated corporate expenses				(54,495,448)
Other income (excluding interest income)				1,291,759
Operating profit				16,104,273
Finance costs				(748,945)
Interest income				587,467
Profit before tax				15,942,795
Income tax expense				(69,000)
Profit for the year attributable to equity holders of the Company				15,873,795

As at 31 March 2007

	Hong Kong *HK$*	The PRC *HK$*	Overseas *HK$*	Unallocated *HK$*	Total *HK$*
Assets					
Segment assets	17,837,960	40,876,448	7,971,144	76,482,636	143,168,188
Liabilities					
Segment liabilities	8,152,059	11,391,284	10,538,021	57,469,994	87,551,358
Other Information					
Capital expenditure	615,368	2,221,182	–	4,884,035	7,720,585
Depreciation and amortisation	269,454	895,498	–	1,455,936	2,620,888
Allowance for doubtful debts	809,769	69,307	480,137	–	1,359,213

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENTS

Major non-cash transaction

At the year ended 31 March 2005, 2006 and 2007, the Group entered into finance leases in respect of motor vehicles with a total capital value at the inception of HK$494,900, HK$464,834 and HK$Nil.

35. SUBSIDIARIES

Particulars of the subsidiaries as at 31 March 2007 are as follows:

Name	Place of incorporation/ registration and principal place of operation	Attributable equity interest	Issued and fully paid share capital/ registered capital	Principal activities
Directly held				
Ultra Group Company Limited	British Virgin Islands/ Hong Kong	100%	US$10,000 Ordinary	Investment holding
Indirectly held				
Ultra (HK) Group Holdings Limited	Hong Kong	100%	HK$2 Ordinary	Investment holding
Ultra Trading (HK) Limited	Hong Kong	100%	HK$2 Ordinary	Trading of office furniture in Hong Kong
Ultra Development Limited	Hong Kong	100%	HK$2 Ordinary	Trading of office furniture and provision of management services
Ultra Asia Holdings Limited	Hong Kong	100%	HK$2 Ordinary	Export of office furniture
Ultra Trading Company Limited	Hong Kong	100%	HK$10,000 Ordinary	Dormant since July 2001
Kwun Yick International Limited	British Virgin Islands/ Hong Kong	100%	US$1 Ordinary	Investment holding
Ultra Trading International Company Limited	Hong Kong	100%	HK$2 Ordinary	Dormant since September 2002
Europe China Media Asia-Pacific Limited	Hong Kong	100%	HK$2 Ordinary	Investment holding
Ultra Office Furniture Company Limited	Hong Kong	100%	HK$10,000 Ordinary	Investment holding and dormant since April 2006
Ultra Asia-Pacific Company Limited	Hong Kong	100%	HK$2,000,000 Ordinary	Dormant since September 2001
Zhaoqing Ultra Furniture Company Limited	The PRC	100%	US$1,200,000 Equity	Manufacturing and sale of office furniture

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

For the year ended 31 March 2005

FINANCIAL REVIEW

The Group has achieved an impressive growth in turnover and net profit for the year ended 31 March 2005. This accomplishment is the combined result of the Group's strategy plan, quality products and services, and the efforts of the employee.

The Group's turnover for the year ended 31 March 2005 was approximately HK$161.6 million, which represented an increase of 75.8% as compared to the turnover of approximately HK$91.9 million for the year ended 31 March 2004. After suffering from a period of economic recession, Hong Kong has shown signs of a moderate market recovery with a moderate increase in gross domestic product and property prices in 2005. Together with the dynamic and fast growing markets in the PRC, the bullish market has contributed to the business growth in most industries resulting in more offices set up and expansion which benefited the office furniture sector.

The turnover derived from Hong Kong, the PRC and overseas accounted for approximately 30.8%, 59.7% and 9.5% respectively for the year ended 31 March 2005, as compared to approximately 37.4%, 55.5% and 7.1% for last year ended 31 March 2004. This increased proportion in the PRC and overseas sales mapped the Group's long term strategy in focusing on the PRC market and expansion of dealership business.

During the current year, the Group was continuously under the market pressure of the rising production costs. The overall volatility of raw materials and transportation costs has adversely affected the gross profit margin of the Group which dropped to 35.2% for the year ended 31 March 2005 as compared to approximately 38.1% for the last year ended 31 March 2004. The lower gross profit margin was mainly attributable to the higher cost of sales and transportation costs incurred and the higher sales discounts granted to customers because of the fierce market competition. The price increase in raw materials primarily comprised particle board, metals, aluminium, steel, oil by products, chemicals and paintings, of which the purchase price increments varied between 20% to even 100% in the market. Due to the competitive market environment, the Group has been absorbing additional cost without shifting the burden to customers in the short run in order to maintain a long term relationships. As a result, this contributed to a lower gross profit margin despite a substantial increase in turnover. The Group will continuously review the cost structure and source alternative vendors to strive for the material efficiency in the production process. The Group has also continuously reviewed the selling price in responses to the market situation and balancing of demand from customers.

For the year ended 31 March 2005, the total operating expenses increased by approximately 21.5% as compared to the year ended 31 March 2004. The higher expenses were mainly attributable to the increase in staff costs including sales commission, which is in line with the significant increment in sales. Moreover, the percentage of total expenses to sales was still relatively lower for the current year as compared to previous year. The additional costs incurred for the upgrade of staff quality to form a stronger support team and restructuring of the department structure resulting in better services to customers would create long term benefits to the Group's business performance. Besides, the expenditure invested in areas such as product development, sales and marketing programs, information technology, and staff training is also essential to the Group's growth strategy. With these development costs, the Group is confident to achieve a better financial performance in the foreseeable future.

The Group recorded a net profit attributable to shareholders of approximately HK$3.1 million for the year ended 31 March 2005. The move from a net loss of approximately HK$8.6 million for last year ended 31 March 2004 to a net profit for the current year was an encouraging turning point for the Group's recent business development.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group had bank and cash balances which amounted to approximately HK$19.8 million (2004: HK$17.2 million) and bank overdrafts and short term bank loans and obligations under finance leases which amounted to approximately HK$10.8 million (2004: HK$7.3 million). These borrowings are denominated in Hong Kong dollars and Renminbi, repayable within one year and interest-bearing at prevailing market rates.

The long term liabilities represented the bank loans and obligations under finance leases repayable in two to five years, interest-bearing at prevailing market rates and denominated in Hong Kong dollars amounted to HK$0.67 million (2004: HK$0.15 million).

As at 31 March 2005, the Group has been granted banking facilities totaling HK$14.4 million (2004: HK$11.5 million) of which HK$13.2 million (2004: HK$6.5 million) were utilized and were secured by pledge of fixed deposits, corporate guarantees and legal charge on land use rights and buildings owned by the Group.

GEARING RATIO

The Group's gearing ratio, defined as the ratio between total liabilities over total assets, was 0.77 (2004: 0.75).

CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 20 January 2004. There has been no change in the capital structure of the Company since the Company's listing on that date. Up to the year ended 31 March 2005, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders as at 31 March 2005 was approximately HK$16.1 million (2004: HK$13.0 million)

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There is no acquisition or disposal of subsidiaries and affiliated companies for the year ended 31 March 2005.

FOREIGN EXCHANGE EXPOSURE

The income and expenditure of the Group are mainly denominated in Hong Kong dollars and Renminbi. In view of the stability of the exchange rates of Renminbi, the Directors do not consider that the Group is significantly exposed to foreign exchange risk. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

CHARGE ON THE GROUP ASSETS

Certain of the Group's assets are pledged to banks as security for general banking facilities granted. As at 31 March 2005, the pledged assets of the Group were bank deposits amounted to HK$5 million (2004: HK$5 million) and the land use rights and buildings owned by the Group in the PRC.

HUMAN RESOURCES

As at 31 March 2005, the Group employed approximately 835 (2004: 560) employees in the PRC and approximately 80 (2004: 65) staff in Hong Kong. The Group continues to employ, promote and reward its staff based on their performance and experience. The Group also consistently adopts a policy of human resources enrichment, and provides training programme to employees. In addition to their basic salaries, employees also enjoy other fringe benefits such as provident fund. Management will streamline the business to closely monitor the headcounts while it will also put emphasis on the staff quality.

The total staff costs, including Directors' emoluments, amounted to approximately HK$27.9 million (2004: HK$23.2 million) for the year under review.

CONTINGENT LIABILITIES

As at 31 March 2005, there were contingent liabilities in respect of bills of exchange discounted to a bank with recourse amounting to HK$1.3 million (2004: HK$Nil).

FUTURE PLANS

The Directors will continue to focus sales and marketing efforts which they believe will drive the Group's sales growth and market expansion in the future.

For the year ended 31 March 2006

FINANCIAL REVIEW

The Group has a thrilling financial performance for the year ended 31 March 2006.

The Group's turnover for the year ended 31 March 2006 was approximately HK$252.0 million, which represented an increase of approximately 55.9% as compared to the turnover of approximately HK$161.6 million for the year ended 31 March 2005. The turnover derived from the operations of the Group in Hong Kong, the PRC and overseas markets accounted for approximately 31.4%, 49.9% and 18.7% of the Group's turnover respectively for the year ended 31 March 2006, as compared to those of approximately 30.8%, 59.7% and 9.5% for last year. The Board considers that such increase in overseas sales is consistent with the Group's long term strategy to expand its dealership business in overseas markets.

Notwithstanding the pressure of the rising production costs and the overall volatility of raw materials and transportation costs, the Group has maintained its gross profit margin at approximately 35.1% for the year ended 31 March 2006 as compared to that of approximately 35.2% last year. During the year under review, there was continuous increase in the costs of raw materials such as particle board, metals, aluminium, steel, oil by-products, chemicals and paintings. In view of the competitive market environment, the Group has absorbed such additional cost without shifting the burden to customers during the year under review given the Group's continuous effort in maintaining long term relationship with its customers. To maintain its profitability, the Group has continuously reviewed its cost structure and has endeavoured to source alternative suppliers in order to improve the material efficiency in the production process. As a result, the adverse effect resulting from the price increase in raw materials was reduced by the efficiency gained by the Group from the enlarged scales of production resulting from the sales growth during the year.

For the year ended 31 March 2006, the total operating expenses increased by approximately 26.6% as compared to that for the year ended 31 March 2005. The higher operating expenses were mainly attributable to the increase in staff costs resulting from the significant increment in sales. Moreover, the percentage of total expenses to sales remained relatively low for the current year as compared to that of the previous year. Nevertheless, the additional staff costs incurred enabled the Group to form a stronger support team, together with the increased expenditure on product development, sales and marketing programs, information technology, and staff trainings, which are beneficial for the Group's business growth.

The Group recorded a net profit attributable to equity holders of approximately HK$20.9 million for the year ended 31 March 2006 (2005: HK$3.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group's bank and cash balances amounted to approximately HK$27.9 million (2005: HK$19.8 million). The Group's bank overdrafts, short term bank loans and obligations under finance leases amounted to approximately HK$7.4 million (2005: HK$11.3 million). These borrowings are denominated in Hong Kong dollars, United States dollars and Renminbi and are repayable within one year and bear interest at prevailing market rates.

The Group's long term liabilities, which comprised bank loans and obligations under finance leases repayable in two to five years amounted to HK$0.8 million (2005: HK$0.7 million). These bank loans and finance leases bear interest at prevailing market rates and are denominated in Hong Kong dollars.

As at 31 March 2006, the Group has been granted banking facilities in the aggregate amount of HK$18.2 million (2005: HK$14.4 million) of which HK$11.1 million (2005: HK$13.2 million) were utilized and were secured by pledge of Group's fixed deposits, corporate guarantees and legal charge on the prepaid land lease payments and the buildings owned by the Group in the PRC.

GEARING RATIO

The Group's gearing ratio as at 31 March 2006, representing the ratio of the Group's total liabilities over the Group's total assets, was 0.65 (2005: 0.77).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 March 2006. Up to the year ended 31 March 2006, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders as at 31 March 2006 was approximately HK$37.6 million (2005: HK$16.1 million).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There is no acquisition or disposal of subsidiaries and affiliated companies for the year ended 31 March 2006.

FOREIGN EXCHANGE EXPOSURE

The income and expenditure of the Group are mainly denominated in Hong Kong dollars and Renminbi. In view of the stability of the exchange rates of Renminbi, the Directors do not consider that the Group is exposed to significant foreign exchange risk. Hence, no hedging or other arrangements to reduce the Renminbi currency risk have been implemented.

TAXATION

Details of the treatment of the Company's taxation for the year ended 31 March 2006 are set out in note 9 to the financial statements.

CHARGE ON GROUP'S ASSETS

Some of the Group's assets are pledged to banks as security for general banking facilities granted to the Group. As at 31 March 2006, the assets of the Group pledged to banks included bank deposits in the aggregate amount of approximately HK$3.5 million (2005: HK$5.0 million) and the legal charge on the prepaid land lease payments and the buildings owned by the Group in the PRC.

HUMAN RESOURCES

As at 31 March 2006, the Group had approximately 892 (2005: 835) employees in the PRC and approximately 103 (2005: 80) staff in Hong Kong. The Group continues to employ, promote and reward its staff with reference to their performance and experience. The Group also consistently adopts a policy of human resources enrichment, and provides training programme to its employees. In addition to their basic salaries, the Group's employees also enjoy other fringe benefits such as provident fund. Management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality.

The total staff costs, including Directors' emoluments, amounted to approximately HK$35.5 million (2005: HK$27.9 million) for the year under review.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group had contingent liabilities in respect of bills of exchange discounted to a bank with recourse amounted to HK$Nil (2005: HK$1.3 million).

FUTURE PLANS

The Group will consistently adhere to their business objective to pave the way to be the best office furniture company in Asia. The Group will strengthen its product development capabilities and enhance customer satisfaction to consolidate their brand position in the office furniture market.

LITIGATION

As at 31 March 2006, the Company had no significant pending litigation.

For the year ended 31 March 2007

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2007 was approximately HK$299.3 million, which represented an increase of approximately 18.8% as compared to the turnover of approximately HK$252.0 million for the year ended 31 March 2006. The turnover derived from the operations of the Group in Hong Kong, the PRC and overseas markets accounted for approximately 30.9%, 48.5% and 20.6% of the Group's turnover respectively for the year ended 31 March 2007, as compared to those of approximately 31.4%, 49.9% and 18.7% for last year. The Board considers that such increase in overseas sales is consistent with the Group's long term strategy to expand its dealership business in overseas markets.

The Group faced a high pressure of the rising production costs and the overall volatility of raw materials costs, transportation costs and installation costs. Gross profit margin of the Group for the year ended 31 March 2007 was decreased to approximately 33.1% as compared to approximately 35.1% for last year. During the year under review, there was continuous increase in the costs of raw materials and appreciation of Renminbi. In view of the competitive market environment, the Group has absorbed a portion of such additional costs without shifting the entire burden to customers during the year under review given the Group's continuous effort in maintaining long term relationship with its customers.

For the year ended 31 March 2007, the total operating expenses increased by approximately 22.8% as compared to that for the year ended 31 March 2006. The increase in operating expenses were mainly attributable to the increase in staff costs and rental expenses which are for the benefit of the Group's continuous business growth and development in long term. The percentage of total expenses to sales was slightly increased by 0.9% as compared to that of the previous year. Nevertheless, the additional staff costs incurred enabled the Group to form a stronger support team, together with the increased expenditure on product development, quality assurance, sales and marketing programs, information technology, and staff trainings, which are beneficial for the Group's business growth.

The Group recorded a net profit attributable to equity holders of approximately HK$15.9 million for the year ended 31 March 2007 (2006: HK$20.9 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group's bank and cash balances amounted to approximately HK$49.7 million (2006: HK$27.9 million). The Group's short term bank loans and current portion of bank loan and obligations under finance leases amounted to approximately HK$10.4 million (2006: HK$7.4 million). These borrowings are denominated in Hong Kong dollars, United States dollars and Renminbi and are repayable within one year and bear interest at prevailing market rates.

The Group's long term liabilities, which comprised bank loan and obligations under finance leases repayable in two to five years, amounted to HK$0.5 million (2006: HK$0.8 million). These bank loan and finance leases bear interest at prevailing market rates and are denominated in Hong Kong dollars.

As at 31 March 2007, the Group has been granted banking facilities in the aggregate amount of HK$25.3 million (2006: HK$18.2 million) of which HK$17.4 million (2006: HK$11.1 million) were utilized and were secured by pledge of the Group's fixed deposits, corporate guarantees and legal charge on the prepaid land lease payments and the buildings owned by the Group in the PRC.

GEARING RATIO

The Group's gearing ratio, which represents the ratio of the Group's total liabilities over the Group's total assets, was 0.61 as at 31 March 2007 (2006: 0.65).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 March 2007. During the year ended 31 March 2007, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders as at 31 March 2007 was approximately HK$55.6 million (2006: HK$37.6 million).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There is no acquisition or disposal of subsidiaries and affiliated companies for the year ended 31 March 2007.

FOREIGN EXCHANGE EXPOSURE

The income and expenditure of the Group are mainly denominated in Hong Kong dollars and Renminbi. The Directors do not consider that the Group is exposed to significant foreign exchange risk. Hence, no hedging or other arrangements to reduce the currency risk of Renminbi have been implemented by the Group.

INCOME TAX

Details of the treatment of the Group's income tax expense for the year ended 31 March 2007 are set out in note 9 to the financial statements.

CHARGE ON GROUP'S ASSETS

Some of the Group's assets are pledged to banks as security for general banking facilities granted to the Group. As at 31 March 2007, the assets of the Group pledged to banks included bank deposits in the aggregate amount of approximately HK$3.5 million (2006: HK$3.5 million) and the legal charge on the prepaid land lease payments and the buildings owned by the Group in the PRC.

HUMAN RESOURCES

As at 31 March 2007, the Group had approximately 900 (2006: 892) employees in the PRC and approximately 119 (2006: 103) staff in Hong Kong. The Group continues to employ, promote and reward its staff with reference to their performance and experience. The Group also consistently adopts a policy of human resources enrichment, and provides training programme to its employees. In addition to their basic salaries, the Group's employees are also entitled to other fringe benefits such as provident fund. The management will continue to closely monitor the human resources requirements of the Group, and will also put emphasis on the staff quality.

The total staff costs, including Directors' emoluments, amounted to approximately HK$43.3 million (2006: HK$35.5 million) for the year ended 31 March 2007.

CONTINGENT LIABILITIES

A subsidiary of the Group is currently a co-defendant with a driver employed by that subsidiary in a lawsuit brought by a party in a personal injury claim involving a traffic accident. The Group and its insurance company have been contesting the claim. Although the final outcome of the proceedings is still uncertain, the Directors are of the opinion that the ultimate liability of the Group arising from the claim, if any, should not have a material adverse impact on the Group's financial position.

Save as the said litigation, the Group did not have any material contingent liabilities as at 31 March 2007 (2006: HK$Nil).

FUTURE PLANS

In view of the keen market competition in the office furniture industry, the Group has also been exploring different business and/or co-operation opportunities from time to time. The Group is in discussion with an independent third party in relation to a possible acquisition of a new business. On the other hand, the Group is also studying the possibility of disposing of some of its business operations. Subsequent to the balance sheet date, on 18 June 2007, the Group entered into a share subscription agreement with Global On-Line Distribution Limited ("**Global On-Line**"), an independent third party, whereby subject to certain conditions, to subscribe 5,100 new shares in Global On-Line representing 51% entire issued share capital of Global On-Line as enlarged by the issue of new shares at a cash consideration of HK$5,100. The Group will also advance HK$2,250,000 to Global On-Line, of which HK$1,000,000 has been advanced on 3 July 2007. The subscription of new shares in Global On-Line has been completed on 3 July 2007. A summary of the terms of the share subscription agreement is set out in the announcement of the Company dated 18 June 2007 and the circular of the Company dated 28 September 2007.

LITIGATION

As at 31 March 2007, save as disclosed under the paragraph headed "Contingent Liabilities", the Group had no significant pending litigation.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 April 2008

The Board of Directors
Challenger Group Holdings Limited
Unit A1,
6/F, Mai Hing Industrial Building,
16-18 Hing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Imare Company Limited ("Imare") for the period from 2 January 2008 (date of incorporation) to 31 January 2008 (the "Relevant Period") for inclusion in the circular dated 30 April 2008 (the "Circular") issued by Challenger Group Holdings Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of Imare.

Imare was incorporated on 2 January 2008 in British Virgin Islands with limited liability and acts as an investment holding company.

Imare will adopt 31 December as its financial year end date.

No audited financial statements have been prepared for Imare for the Relevant Period as there is no statutory audit requirement in the country of its incorporation. For the purpose of this report, the directors of Imare have prepared the management accounts of Imare for the Relevant Period in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

For the purpose of this report, we have examined the unaudited management accounts of Imare (the "Underlying Financial Statements") for the Relevant Period and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the Underlying Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of Imare are responsible for the preparation of the Underlying Financial Statements. 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 Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Imare as at 31 January 2008 and of its results and cash flows for the Relevant Period.

FINANCIAL INFORMATION

A. INCOME STATEMENT

	Note	**Period from 2 January 2008 (date of incorporation) to 31 January 2008** *HK$*
Turnover	6	–
Cost of sales		–
Profit before tax		–
Income tax expense	8	–
Profit for the period attributable to equity holders of Imare	9	–

B. BALANCE SHEET

	Note	As at 31 January 2008 HK$
Current assets		
Due from immediate parent	10	390,030
NET ASSETS		390,030
Capital and reserves		
Share capital	11	390,030
TOTAL EQUITY		390,030

C. STATEMENT OF CHANGES IN EQUITY

	Share capital HK$	Retained profits HK$	Total equity HK$
Issuance of shares	390,030	–	390,030
Profit for the period	–	–	–
At 31 January 2008	390,030	–	390,030

D. CASH FLOW STATEMENT

	Period from 2 January 2008 (date of incorporation) to 31 January 2008 *HK$*
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before tax	–
Net cash generated from operating activities	–
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in due from immediate parent	(390,030)
Net cash used in investing activities	(390,030)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of shares	390,030
Net cash generated from financing activities	390,030
NET INCREASE IN CASH AND CASH EQUIVALENTS	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	–
ANALYSIS OF CASH AND CASH EQUIVALENTS	
Bank and cash balances	–

E. NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

Imare was incorporated in the British Virgin Islands as a company with limited liability. The address of its registered office is Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands.

Imare is inactive since incorporation.

In the opinion of the directors of Imare, as at 31 January 2008, Grand Pacific Source Limited, a company incorporated in the British Virgin Islands, is the immediate parent and GEM Global Yield Fund Limited, a company incorporated in the Cayman Islands, is the ultimate parent.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Imare has adopted all the new and revised HKFRSs that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs, the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4 to Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

3.1 Foreign currency translation

(i) Functional and presentation currency

Items included in the Financial Information are measured using the currency of the primary economic environment in which Imare operates (the "functional currency"). The Financial Information is presented in Hong Kong dollars, which is Imare's presentation currency. The functional currency of Imare is United States dollars.

(ii) Transactions and balances in Financial Information

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

3.2 Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when Imare becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; Imare transfers substantially all the risks and rewards of ownership of the assets; or Imare neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised 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 is recognised in the income statement.

3.3 Other receivables

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of other receivables is established when there is objective evidence that Imare will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3.4 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of Imare's cash management are also included as a component of cash and cash equivalents.

3.5 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of Imare after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Other payables

Other payables are stated initially at their fair value and 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.

(ii) Equity instruments

Equity instruments issued by Imare are recorded at the proceeds received, net of direct issue costs.

3.6 Taxation

Income tax represents the sum of the current tax and deferred tax.

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

Deferred tax is 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 profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Imare intends to settle its current tax assets and liabilities on a net basis.

3.7 Related parties

A party is related to Imare if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of Imare or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of Imare, or of any entity that is a related party of Imare.

3.8 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Imare has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3.9 Events after the balance sheet date

Events after the balance sheet date that provide additional information about Imare's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the balance sheet date that are not adjusting events are disclosed in the notes to Financial Information when material.

4. KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions 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, are discussed below.

4.1 Impairment loss for bad and doubtful debts

Imare makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. FINANCIAL RISK MANAGEMENT

Imare's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. Imare's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Imare's financial performance.

5.1 Foreign currency risk

Imare has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in United States dollars. Imare currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Imare will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5.2 Credit risk

The carrying amount of due from immediate parent included in the balance sheet represents Imare's maximum exposure to credit risk in relation to Imare's financial assets.

Due from immediate parent is closely monitored by the directors.

5.3 Liquidity risk

Imare's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

5.4 Interest rate risk

As Imare has no interest-bearing assets and liabilities, Imare's operating cash flows are independent of changes in market interest rates.

5.5 Fair value

The carrying amounts of Imare's financial assets and financial liabilities as reflected in the balance sheet approximate their respective fair values.

6. TURNOVER

Imare has not yet commenced business and has no revenue during the Relevant Period.

7. SEGMENT INFORMATION

Imare has not yet commenced business and no business or geographical segment is presented.

8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since Imare has no assessable profit for the Relevant Period.

No provision for deferred taxation has been made in the Financial Information as there were no temporary difference at the balance sheet date.

9. PROFIT FOR THE PERIOD

Imare's profit for the period is stated after charging the followings:

	Period from 2 January 2008 (date of incorporation) to 31 January 2008 *HK$*
Directors' remuneration	
– As director	–
– For management	–
Staff costs	–

10. DUE FROM IMMEDIATE PARENT

The amount is unsecured, interest-free and has no fixed terms of repayment.

11. SHARE CAPITAL

	As at 31 January 2008 *HK$*
Authorised, issued and fully paid:	
50,000 ordinary shares of US$1 each	390,030

Imare was incorporated on 2 January 2008 and allotted 50,000 ordinary shares of US$1 each as the initial working capital.

Imare's objectives when managing capital are to safeguard Imare's ability to continue as a going concern and to maximise the return to the shareholder through the optimisation of the debt and equity balance.

Imare sets the amount of capital in proportion to risk. Imare manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Imare may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

Imare is not subject to any externally imposed capital requirements.

12. EVENTS AFTER THE BALANCE SHEET DATE

There was no material events after the balance sheet date.

13. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Imare in respect of any period subsequent to 31 January 2008.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF IMARE

Financial Results

Imare was incorporated on 2 January 2008 whose principal business is investment holding. It has not carried on any business activities since its date of incorporation and its revenue and profit during the period from 2 January 2008 (being its date of incorporation) to 31 January 2008 was both nil.

Amount due from immediate parent

As at 31 January 2008, the amount due from its immediate parent, Grand Pacific, was approximately HK$0.39 million, which is unsecured, interest-free and has no fixed terms of repayment.

Liquidity and Financial Resources

Net asset value

As at 31 January 2008, the net asset value of Imare is approximately HK$0.39 million.

Charges on Assets

As at 31 January 2008, Imare has not charged any of its assets.

Gearing ratio

As at 31 January 2008, the gearing ratio of Imare is zero, which is calculated as total liabilities over total assets.

Acquisition or disposal of subsidiaries or affiliated companies

Imare did not hold interest in any companies since 2 January 2008 (being its date of incorporation). Imare had not acquired or disposed of any subsidiaries or affiliated companies for the period from 2 January 2008 to 31 January 2008.

Future plans

Imare will hold the entire issued share capital of Joy Harvest upon completion of the Treasure Success SPA which is one of the conditions precedent to the Sale and Purchase Agreement. Upon the Acquisition Completion, Imare will become a wholly-owned subsidiary of the Company.

Contingent liabilities

Based on the financial information of Imare as disclosed in Appendix II to this circular, it does not indicate that Imare has any contingent liabilities as at 31 January 2008.

Capital Structure

For the period from 2 January 2008 (being its date of incorporation) to 31 January 2008, Imare has met its working capital and other capital requirements principally from its share capital.

Information on Employees

As at 31 January 2008, Imare did not employ any staff.

Foreign exchange exposure

The financial information of Imare is expressed in HK$ and the functional currency is US$. Imare has minimal exposure to foreign exchange risk as most of its business transactions, assets and liabilities are principally denominated in US$. During the period from 2 January 2008 (being its date of incorporation) to 31 January 2008, Imare did not record any exchange gain or loss.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 April 2008

The Board of Directors
Challenger Group Holdings Limited
Unit A1,
6/F, Mai Hing Industrial Building,
16-18 Hing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Joy Harvest Holdings Limited ("JHH") and its subsidiary (hereinafter collectively referred to as the "JHH Group") for each of the three years ended 31 December 2007 (the "Relevant Periods") for inclusion in the circular dated 30 April 2008 (the "Circular") issued by Challenger Group Holdings Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of Imare Company Limited.

JHH was incorporated on 8 May 2000 in Hong Kong with limited liability and acts as an investment holding company. As at the date of this report, JHH has the following subsidiary:

Name of subsidiary	Place and date of establishment	Registered capital	Attributable equity interest of the JHH Group	Principal activities
鄂爾多斯市啟杰蒙西煤化有限公司 (Ordos GEM Coal & Chemical Co., Ltd.)	People's Republic of China (the "PRC") 29 November 2007	RMB80,000,000	70%	Not yet commence business

Note: 鄂爾多斯市啟杰蒙西煤化有限公司 (Ordos GEM Coal & Chemical Co., Ltd.) is a sino foreign equity joint venture established in the PRC. As at the date of this report, no registered capital has been paid up yet.

All the companies comprising the JHH Group have adopted 31 December as their financial year end date.

No statutory audited financial statements have been prepared for JHH for each of the three years ended 31 December 2007.

No statutory audited financial statements have been prepared for 鄂爾多斯市啟杰蒙西煤化有限公司 (Ordos GEM Coal & Chemical Co., Ltd.) since its date of incorporation.

For the purpose of this report, we have examined the unaudited management accounts of all the companies of the JHH Group (the "Underlying Financial Statements") for the Relevant Periods prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by The Hong Kong Institute of Certified Public Accountants (the "HKICPA") and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the Underlying Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of the respective companies of the JHH Group are responsible for the preparation of the Underlying Financial Statements. 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 Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

We planned our work so as to obtain all the information and explanation which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. As stated in note 11 to Financial Information, the directors of JHH considered the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate as at the date of acquisition amounted to HK$371 million based on a transaction related to acquisition of the entire issued share capital of JHH by an independent third party which was close to the date of acquisition of the associate. However, the evidence available to us was limited as the aforesaid transaction could not provide sufficient information of the net fair value of identifiable assets, liabilities and contingent liabilities of the associate as at the date of acquisition to satisfy ourselves as to the share of net assets of the associate of HK$374,477,460 as at 31 December 2007 and the excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate of HK$127,068,200 for the year ended 31 December 2007.

Any adjustments to the above figures might have a significant consequential effect on the results for the year ended 31 December 2007 and net assets as at 31 December 2007.

Because of the significance of the possible effect of the limitation in evidence available to us as described above, we are unable to form an opinion as to whether the Financial Information give a true and fair view of the state of the affairs of JHH and of the JHH Group as at 31 December 2007 and of the JHH Group's results and cash flows for the year then ended.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of JHH and of the JHH Group as at 31 December 2005 and 2006 and of the JHH Group's results and cash flows for the years ended 31 December 2005 and 2006.

FINANCIAL INFORMATION

A. CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		
		2005	**2006**	**2007**
	Note	*HK$*	*HK$*	*HK$*
Turnover	7	–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
Other income – interest income		–	–	10
Excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate	11	–	–	127,068,200
Administrative expenses		(6,767)	(6,768)	(3,525,870)
(Loss)/profit before tax		(6,767)	(6,768)	123,542,340
Income tax expense	9	–	–	–
(Loss)/profit for the year attributable to equity holders of JHH	10	(6,767)	(6,768)	123,542,340

B. CONSOLIDATED BALANCE SHEETS

		As at 31 December		
		2005	2006	2007
	Note	*HK$*	*HK$*	*HK$*
Non-current assets				
Investment in an associate	11	–	–	374,477,460
Current assets				
Bank and cash balances		5,013	3,965	4,497
Current liabilities				
Other payable	12	–	–	247,409,260
Bank overdraft, unsecured		80	–	304
Due to a director	13	33,750	39,550	51,114
		33,830	39,550	247,460,678
Net current liabilities		(28,817)	(35,585)	(247,456,181)
NET (LIABILITIES)/ASSETS		(28,817)	(35,585)	127,021,279
Capital and reserves				
Share capital	14	1,000	1,000	1,000
Reserves		(29,817)	(36,585)	127,020,279
TOTAL EQUITY		(28,817)	(35,585)	127,021,279

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$*	**Foreign currency translation reserve** *HK$*	**(Accumulated losses)/retained profits** *HK$*	**Total equity** *HK$*
At 1 January 2005	1,000	–	(23,050)	(22,050)
Loss for the year	–	–	(6,767)	(6,767)
At 31 December 2005 and 1 January 2006	1,000	–	(29,817)	(28,817)
Loss for the year	–	–	(6,768)	(6,768)
At 31 December 2006 and 1 January 2007	1,000	–	(36,585)	(35,585)
Translation difference	–	3,514,524	–	3,514,524
Net income recognised directly in equity	–	3,514,524	–	3,514,524
Profit for the year	–	–	123,542,340	123,542,340
Total recognised income and expense for the year	–	3,514,524	123,542,340	127,056,864
At 31 December 2007	1,000	3,514,524	123,505,755	127,021,279

D. CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax	(6,767)	(6,768)	123,542,340
Excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate	–	–	(127,068,200)
Operating loss before working capital changes	(6,767)	(6,768)	(3,525,860)
Increase in due to a director	5,800	5,800	11,564
NET DECREASE IN CASH AND CASH EQUIVALENTS	(967)	(968)	(3,514,296)
Effect of foreign exchange rate changes	–	–	3,514,524
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,900	4,933	3,965
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,933	3,965	4,193
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	5,013	3,965	4,497
Bank overdraft	(80)	–	(304)
	4,933	3,965	4,193

E. BALANCE SHEETS

		As at 31 December		
		2005	**2006**	**2007**
	Note	*HK$*	*HK$*	*HK$*
Non-current assets				
Investment in an associate	11	–	–	243,894,736
Current assets				
Bank and cash balances		5,013	3,965	4,497
Current liabilities				
Other payable	12	–	–	247,409,260
Bank overdraft, unsecured		80	–	304
Due to a director	13	33,750	39,550	51,114
		33,830	39,550	247,460,678
Net current liabilities		(28,817)	(35,585)	(247,456,181)
NET LIABILITIES		(28,817)	(35,585)	(3,561,445)
Capital and reserves				
Share capital	14	1,000	1,000	1,000
Reserves	15	(29,817)	(36,585)	(3,562,445)
TOTAL EQUITY		(28,817)	(35,585)	(3,561,445)

F. NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

JHH was incorporated in Hong Kong as a company with limited liability under the Hong Kong Companies Ordinance. The address of JHH's registered office is 26th floor, Times Media Centre, 133 Wanchai Road, Wanchai, Hong Kong.

JHH is an investment holding company.

In the opinion of the directors of JHH, as at 31 December 2007, Treasure Success Investment Limited , a company incorporated in Hong Kong, is the ultimate parent.

2. GOING CONCERN BASIS

As at 31 December 2007, the JHH Group had net current liabilities of HK$247,456,181. This condition indicates the existence of a material uncertainty which may cast significant doubt on the JHH Group's ability to continue as a going concern. Therefore, the JHH Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Financial Information has been prepared on a going concern basis, the validity of which depends upon the financial support of the ultimate parent, at a level sufficient to finance the working capital requirements of the JHH Group. The ultimate parent has agreed to provide adequate funds for the JHH Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. Should the JHH Group be unable to continue as a going concern, adjustments would have to be made to the Financial Information to adjust the value of its assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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

JHH Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2007. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

JHH Group has not applied the new HKFRSs that have been issued but are not yet effective. The JHH Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs, the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5 to Financial Information.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

4.1 Consolidation

The consolidated financial statements include the financial statements of JHH and its subsidiary made up to 31 December. Subsidiary is entity over which the JHH Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the JHH Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the JHH Group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised profits on transactions between the JHH Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the JHH Group.

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

4.2 Associates

Associates are entities over which the JHH Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the JHH Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the JHH Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

JHH Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the JHH Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the JHH Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the JHH Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the JHH Group and its associates are eliminated to the extent of the JHH Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the JHH Group.

In JHH's balance sheet the investment in an associate are stated at cost less allowance for impairment losses. The results of associate are accounted for by JHH on the basis of dividends received and receivable.

4.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the JHH Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Hong Kong dollars, which is JHH's presentation currency and functional currency.

(ii) Transactions and balances in each entities's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

(iii) Translation on consolidation

The results and financial position of all the JHH Group entities that have a functional currency different from JHH's presentation currency are translated into JHH's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

4.4 Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the JHH Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the JHH Group transfers substantially all the risks and rewards of ownership of the assets; or the JHH Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised 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 is recognised in the income statement.

4.5 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the JHH Group's cash management are also included as a component of cash and cash equivalents.

4.6 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the JHH Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) *Other payables*

Other payables are stated initially at their fair value and 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.

(ii) *Equity instruments*

Equity instruments issued by JHH are recorded at the proceeds received, net of direct issue costs.

4.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the JHH Group and the amount of revenue can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

4.8 Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

4.9 Taxation

Income tax represents the sum of the current tax and deferred tax.

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

Deferred tax is 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 profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the JHH Group intends to settle its current tax assets and liabilities on a net basis.

4.10 Related parties

A party is related to the JHH Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of JHH or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the JHH Group, or of any entity that is a related party of the JHH Group.

4.11 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the JHH Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

4.12 Events after the balance sheet date

Events after the balance sheet date that provide additional information about the JHH Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the balance sheet date that are not adjusting events are disclosed in the notes to Financial Information when material.

5. CRITICAL JUDGEMENTS

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Financial Information.

Going concern basis

The Financial Information has been prepared on a going concern basis, the validity of which depends upon the financial support of the controlling shareholder at a level sufficient to finance the working capital requirements of the JHH Group. Details are explained in note 2 to Financial Information.

Excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the associate

In making its judgement, the JHH Group considered that the consideration to be paid by JHH of HK$244 million (RMB231.7 million) to acquire 49% equity interest in 內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Limited) and the additional consideration of HK$127 million (RMB119 million) to be paid by the purchaser to acquire the entire issued share capital of JHH being the net fair value of the identifiable assets, liabilities and contingent liabilities. The excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate amounted to HK$127 million (RMB119 million) are recognised in the consolidated income statement for the year ended 31 December 2007 as the directors considered that the consideration are offered by willing buyer and willing seller.

6. FINANCIAL RISK MANAGEMENT

JHH Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. JHH Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the JHH Group's financial performance.

6.1 Foreign currency risk

JHH Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi ("RMB"). JHH Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. JHH Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2007, if the Hong Kong dollar had weakened 5 per cent against the RMB with all other variables held constant, profit after tax for the year would have been HK$7,422,278 (2006: HK$Nil) lower, arising mainly as a result of the foreign exchange loss on other payables denominated in RMB. If the Hong Kong dollar had strengthened 5 per cent against the RMB with all other variables held constant, profit after tax for the year would have been HK$7,422,278 (2006: HK$Nil) higher, arising mainly as a result of the foreign exchange gain on other payables denominated in RMB.

6.2 Credit risk

The carrying amount of the cash and bank balances included in the balance sheet represents the JHH Group's maximum exposure to credit risk in relation to the JHH Group's financial assets.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6.3 Liquidity risk

JHH Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the JHH Group's financial liabilities is as follow:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	HK$	*HK$*	*HK$*	*HK$*
At 31 December 2005				
Bank overdraft	80	–	–	–
Due to a director	33,750	–	–	–
At 31 December 2006				
Due to a director	39,550	–	–	–
At 31 December 2007				
Bank overdraft	304	–	–	–
Other payables	247,409,260	–	–	–
Due to a director	51,114	–	–	–

6.4 Interest rate risk

As JHH Group has no significant interest-bearing assets and liabilities, the JHH Group's operating cash flows are substantially independent of changes in market interest rates.

6.5 Fair value

The carrying amounts of the JHH Group's financial assets and financial liabilities as reflected in the consolidated balance sheets approximate their respective fair values.

7. TURNOVER

JHH Group was inactive and has no revenue during the Relevant Periods.

8. SEGMENT INFORMATION

JHH Group was inactive and no business or geographical segment is presented.

9. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since the JHH Group has no assessable profit for the Relevant Periods.

Pursuant to relevant laws and regulations in the PRC, no provision was made to the subsidiary as it has not yet commenced business for the year ended 31 December 2007.

No provision for deferred taxation has been made in the Financial Information as there were no significant temporary difference at the balance sheet dates.

The reconciliation between the income tax expense and the product of (loss)/profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
(Loss)/profit before tax	(6,767)	(6,768)	123,542,340
Tax at the domestic income tax rate of 17.5% (2006:17.5%, 2005:17.5%)	(1,185)	(1,185)	21,619,909
Tax effect of income that is not taxable	–	–	(22,236,936)
Tax effect of expenses that are not deductible	1,185	1,185	617,027
Income tax expense	–	–	–

10. (LOSS)/PROFIT FOR THE YEAR

JHH Group's (loss)/profit for the year is stated after charging the followings:

	Year ended 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Directors' emoluments			
– As directors	–	–	–
– For management	–	–	–
Staff costs	–	–	–
Net exchange loss	–	–	3,514,334

11. INVESTMENT IN AN ASSOCIATE

	JHH Group As at 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Unlisted investments			
Share of net assets	–	–	374,477,460

	JHH As at 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Unlisted investments, at cost	–	–	243,894,736

Name	Place of registration	Paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
內蒙古蒙西礦業有限公司 (Inner Mongolia Mengxi Minerals Limited) ("Mengxi Minerals")	PRC	Registered capital of RMB 50,000,000	49%	The company has not yet commenced business

On 22 August 2007, JHH entered into an agreement with 內蒙古蒙西高新技術集團有限公司 (Inner Mongolia Mengxi Gaoxing High Tech Limited) ("Mengxi HT") to acquire 49% equity interest in Mengxi Minerals. According to HKAS 28 "Investments in Associates", an investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair values of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with HKFRS 3 "Business Combinations".

On 28 August 2007, the ultimate parent of JHH entered into a share purchase agreement to sell the entire issued share capital of JHH and the purchaser agree to pay an additional consideration of HK$127 million (RMB119 million). The directors of JHH considered that the consideration of HK$244 million (RMB231.7 million) paid by JHH to acquire Mengxi Minerals and the addition consideration of HK$127 million (RMB119 million) to be paid by the purchaser being the net fair value of identified assets, liabilities and contingent liabilities of Mengxi Minerals. As such, the excess of the JHH Group's share of the net fair value of the identified assets, liabilities and contingent liabilities over the cost of acquisition of the associate amounted to HK$127 million (RMB119 million).

Summarised financial information in respect of the JHH Group's associate is set out below:

	As at 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
At 31 December			
Total assets	–	–	764,239,714
Total liabilities	–	–	–
Net assets	–	–	764,239,714
JHH Group's share of associates' net assets	–	–	374,477,460
Year ended 31 December			
Total revenue	–	–	–
Total profit for the year	–	–	–
JHH Group's share of associates' profit for the year	–	–	–

12. OTHER PAYABLE

The other payable represented the amount due to the vendor of the acquisition of the associate.

13. DUE TO A DIRECTOR

The amount due is unsecured, interest-free and has no fixed terms of repayment.

14. SHARE CAPITAL

	As at 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Authorised:			
10,000 ordinary shares of HK$1 each	10,000	10,000	10,000
Issued and fully paid:			
1,000 ordinary shares of HK$1 each	1,000	1,000	1,000

JHH Group's objectives when managing capital are to safeguard the JHH Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

JHH Group sets the amount of capital in proportion to risk. JHH Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the JHH Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

JHH is not subject to any externally imposed capital requirements.

15. RESERVES

(a) JHH Group

The amounts of the JHH Group's reserves and the movements therein are presented in the consolidated statements of changes in equity.

(b) JHH

	Accumulated losses
	HK$
At 1 January 2005	(23,050)
Loss for the year	(6,767)
At 31 December 2005 and 1 January 2006	(29,817)
Loss for the year	(6,768)
At 31 December 2006 and 1 January 2007	(36,585)
Loss for the year	(3,525,860)
At 31 December 2007	(3,562,445)

16. CAPITAL COMMITMENTS

	As at 31 December		
	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Capital expenditure contracted but not provided for in the Financial Information in respect of unpaid balance of capital contributions to an associate	–	–	38,707,750

Pursuant to an equity joint venture agreement dated 22 August 2007 by JHH, Mengxi HT and 上海意歐汽車銷售有限公司 (Shanghai Yiou Auto Sales Limited), JHH has a 49% investment in Mengxi Minerals which was incorporated in the PRC on 2 March 2005 and for a period of thirty years from 30 November 2007. Mengxi Minerals is engaged in sagger exploitation, coal sale, washing and choosing of mine run coal and coal processing. The total investment cost of the JHH Group in proportion to its respective interest in Mengxi Minerals is HK$65,402,750 which is to be financed in the form of property, plant and equipment and cash by the JHH Group. At 31 December 2007 JHH has fulfilled its investment obligation in Mengxi Minerals to the extent of HK$26,695,000.

17. EVENTS AFTER THE BALANCE SHEET DATE

There was no material events after the balance sheet date.

18. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by JHH or any of its subsidiaries in respect of any period subsequent to 31 December 2007.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE JOY HARVEST GROUP

Financial Results

The principal business of Joy Harvest is investment holding and its only subsidiary, Mengxi Chemcial, has not yet commenced business since 29 November 2007 (being its date of incorporation). Therefore, the revenue of the Joy Harvest Group was nil for each of the three years ended 31 December 2007.

The Joy Harvest Group recorded a net loss of approximately HK$6,800 for each of the two years ended 31 December 2006 mainly due to the incur of administrative expenses.

The Joy Harvest Group recorded a net profit of approximately HK$123.54 million for the year ended 31 December 2007 due to the gain of approximately RMB119 million (equivalent to approximately HK$127.07 million) recognized from the excess of Joy Harvest Group's share of net fair value of identifiable assets, liabilities and contingent liabilities of 49% equity interest in Mengxi Minerals over its cost of acquisition.

Liquidity and Financial Resources

Borrowings

For each of the three years ended 31 December 2007, the Joy Harvest Group had amount due to a director of approximately HK$33,750, HK$39,550 and HK$51,114 respectively, which was non-interest bearing, unsecured with no fixed terms of repayment.

Cash and bank balance

For each of the three years ended 31 December 2007, the bank and cash balance of the Joy Harvest Group were approximately HK$5,013, HK$3,965 and HK$4,497 respectively.

Net asset/(deficit) values

The net asset/(deficit) values of the Joy Harvest Group for each of the three years ended 31 December 2007 were approximately HK$(28,817), HK$(35,585) and HK$127.02 million respectively.

Charges on Assets

For each of the three years ended 31 December 2007, all borrowings of the Joy Harvest Group were unsecured.

Gearing ratio

The gearing ratio of the Joy Harvest Group for each of the three years ended 31 December 2007 were 6.75, 9.97 and 0.66 respectively, which is calculated by dividing the total liabilities by the total assets.

Acquisition or disposal of subsidiaries or affiliated companies

During the year ended 31 December 2007, Joy Harvest acquired 49% equity interest in Mengxi Minerals for the consideration of RMB231.70 million (equivalent to approximately HK$247.41 million). The investment in Mengxi Minerals has a carrying value of approximately RMB350.70 million (equivalent to approximately HK$374.48 million) as at 31 December 2007.

As at 31 December 2007, the consideration for the acquisition has not yet been settled and was recorded as other payable of approximately HK$247.41 million (equivalent to approximately RMB231.70 million) on the book of the Joy Harvest Group.

As at 31 December 2007, the Joy Harvest Group owned 70% equity interest in Mengxi Chemical which was incorporated on 29 November 2007. The registered capital of Mengxi Chemical of RMB80 million has not yet been paid up as at 31 December 2007.

Future plans

As at 31 December 2007, the Joy Harvest Group did not have any future plans for material investments or capital assets in the coming year.

Contingent liabilities

Based on the financial information of the Joy Harvest Group as disclosed in Appendix III to this circular, it does not indicate that the Joy Harvest Group has any contingent liabilities as at 31 December 2007.

Capital commitment

As at 31 December 2007, the Joy Harvest Group had a capital commitment contracted but not provided for in respect of the Joy Harvest Group's remaining unpaid balance of approximately RMB36.25 million (equivalent to approximately HK$38.71 million) out of its 49% share of the total investment cost in Mengxi Minerals of RMB61.25 million (equivalent to approximately HK$65.41 million).

Capital Structure

For each of the three years ended 31 December 2007, the Joy Harvest Group has met its working capital and other capital requirements principally from the share capital, reserve and the amount due to a director.

Information on Employees

For each of the three years ended 31 December 2007, the Joy Harvest Group did not employ any staff.

Foreign exchange exposure

The financial information of the Joy Harvest Group is expressed in HK$ for each of the three years ended 31 December 2007 and functional currency is HK$. During each of the two years ended 31 December 2006, there was no financial effects of the exposure to exchange rate risk. During the year ended 31 December 2007, the Joy Harvest Group recorded an exchange loss of approximately HK$3.51 million due to its acquisition of 49% equity interest in Mengxi Minerals whose consideration is denominated in RMB but has not yet been settled as at 31 December 2007. Should the exchange rate of RMB against HK$ continue to appreciate, the financial position of the Joy Harvest Group will be adversely exposed as its liabilities and capital commitments are principally denominated in RMB.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition of entire issued share capital of Imare Company Limited (the "Acquisition") might have affected the financial information of the Group.

The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group for the year ended 31 March 2007 are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 March 2007 as extracted from the annual report of the Company for the year ended 31 March 2007, the audited income statement and cash flow statement of Imare Company Limited ("Imare") for the period 2 January 2008 (date of incorporation) to 31 January 2008 as extracted from the accountants' report set out in Appendix II to this circular and the audited consolidated income statement and cash flow statement of Joy Harvest Holdings Limited ("JHH") for the year ended 31 December 2007 as extracted from the accountants' report set out in Appendix III to this circular as if the Acquisition had been completed on 1 April 2006.

The unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2007 is prepared based on the audited consolidated balance sheet of the Group as at 31 March 2007 as extracted from the annual report of the Company for the year ended 31 March 2007, the audited balance sheet of Imare as at 31 January 2008 as extracted from the accountants' report set out in Appendix II to this circular and the audited consolidated balance sheet of JHH as at 31 December 2007 as extracted from the accountants' report set out in Appendix III to this circular as if the Acquisition had been completed on 31 March 2007.

The unaudited pro forma financial information of the Enlarged Group is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I, the financial information of the Imare as set out in Appendix II and JHH and its subsidiary (hereinafter collectively referred to the "JHH Group") as set out in Appendix III and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 MARCH 2007

	The Group year ended 31.3.2007	Imare period from 2.1.2008 (date of incorporation) to 31.1.2008	JHH Group year ended 31.12.2007	Subtotal	Pro forma adjustments	*Notes*	The Enlarged Group
	HK$	*HK$*	*HK$*	*HK$*	*HK$*		*HK$*
Turnover	299,298,481	–	–	299,298,481			299,298,481
Cost of sales	(200,308,299)	–	–	(200,308,299)			(200,308,299)
Gross profit	98,990,182	–	–	98,990,182			98,990,182
Other income	1,879,226	–	10	1,879,236			1,879,236
Excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate	–	–	127,068,200	127,068,200	(127,068,200)	(ix)	–
Selling and distribution costs	(40,571,027)	–	–	(40,571,027)			(40,571,027)
Administrative and other operating expenses	(43,606,641)	–	(3,525,870)	(47,132,511)	3,514,524	(ix)	(43,617,987)
Profit from operations	16,691,740	–	123,542,340	140,234,080			16,680,404
Finance costs	(748,945)	–	–	(748,945)	(10,006,875)	(v)	(86,843,695)
					(76,087,875)	(vi)	
Profit/(loss) before tax	15,942,795	–	123,542,340	139,485,135			(70,163,291)
Income tax expense	(69,000)	–	–	(69,000)			(69,000)
Profit/(loss) for the year/period	15,873,795	–	123,542,340	139,416,135			(70,232,291)

C. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP AS AT 31 MARCH 2007

	The Group as at 31.3.2007	Imare as at 31.1.2008	JHH Group as at 31.12.2007	Subtotal	Pro forma adjustments	Notes	The Enlarged Group
	HK$	HK$	HK$	HK$	HK$		HK$
ASSETS							
Non-current assets							
Fixed assets	18,313,143	–	–	18,313,143			18,313,143
Prepaid land lease payments	1,389,653	–	–	1,389,653			1,389,653
Intangible assets	334,463	–	–	334,463			334,463
Goodwill	–	–	–	–	446,265,408	(iv)	446,265,408
Investment in an associate	–	–	374,477,460	374,477,460			374,477,460
	20,037,259	–	374,477,460	394,514,719			840,780,127
Current assets							
Inventories	18,540,920	–	–	18,540,920			18,540,920
Trade and other receivables	50,008,088	–	–	50,008,088	390,030	(xi)	50,398,118
Deposits, prepayments and other receivables	4,689,931	–	–	4,689,931			4,689,931
Due from immediate parent	–	390,030	–	390,030	(390,030)	(xi)	–
Current tax assets	184,754	–	–	184,754			184,754
Pledged bank deposits	3,521,425	–	–	3,521,425			3,521,425
Bank and cash balances	46,185,811	–	4,497	46,190,308	750,000,000	(ii)	204,940,308
					(546,000,000)	(iii)	
					(18,750,000)	(v)	
					(26,500,000)	(vii)	
	123,130,929	390,030	4,497	123,525,456			282,275,456
Total assets	143,168,188	390,030	374,481,957	518,040,175			1,123,055,583

	The Group as at 31.3.2007 HK$	Imare as at 31.1.2008 HK$	JHH Group as at 31.12.2007 HK$	Subtotal HK$	Pro forma adjustments HK$	Notes	The Enlarged Group HK$
Equity							
Share capital	5,400,000	390,030	1,000	5,791,030	2,300,000	(i)	7,700,000
					(1,000)	(iv)	
					(390,030)	(iv)	
Reserves	50,216,830	–	127,020,279	177,237,109	25,300,000	(i)	66,366,015
					(9,150,815)	(v)	
					(127,020,279)	(iv)	
Total equity	55,616,830	390,030	127,021,279	183,028,139			74,066,015
Current liabilities							
Trade and bills payables	39,457,334	–	–	39,457,334			39,457,334
Other payables and accruals	28,895,381	–	247,409,260	276,304,641	(233,871,029)	(iii)	42,484,726
					51,114	(xi)	
Dividend payables	14,489	–	–	14,489			14,489
Sales deposits received	8,330,144	–	–	8,330,144			8,330,144
Due to a director	–	–	51,114	51,114	(51,114)	(xi)	–
Bank overdraft, unsecured	–	–	304	304			304
Short term borrowings	10,091,277	–	–	10,091,277			10,091,277
Current portion of long term borrowings	281,922	–	–	281,922			281,922
	87,070,547	–	247,460,678	334,531,225			100,660,196
Non-current liabilities							
Long term borrowings	480,811	–	–	480,811			480,811
Derivative component of the convertible bonds	–	–	–	–	449,000,000	(ii)	449,000,000
Liability component of the convertible bonds	–	–	–	–	471,000,000	(ii)	461,400,815
					(9,599,185)	(v)	
Deferred tax liability	–	–	–	–	37,447,746	(iv)	37,447,746
	480,811	–	–	480,811			948,329,372
Total liabilities	87,551,358	–	247,460,678	335,012,036			1,048,989,568
Total equity and liabilities	143,168,188	390,030	374,481,957	518,040,175			1,123,055,583
Net current assets/(liabilities)	36,060,382	390,030	(247,456,181)	(211,005,769)			181,615,260
Total assets less current liabilities	56,097,641	390,030	127,021,279	183,508,950			1,022,395,387

D. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 MARCH 2007

	The Group year ended 31.3.2007	Imare period from 2.1.2008 (date of incorporation) to 31.1.2008	JHH Group year ended 31.12.2007	Subtotal	Pro forma adjustments	*Notes*	The Enlarged Group
	HK$	*HK$*	*HK$*	*HK$*	*HK$*		*HK$*
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit/(loss) before tax	15,942,795	–	123,542,340	139,485,135	(10,006,875)	(v)	(70,163,291)
					(76,087,875)	(vi)	
					(123,553,676)	(ix)	
Adjustments for:							
Depreciation	2,566,051	–	–	2,566,051			2,566,051
Amortisation of prepaid land lease payments	38,257	–	–	38,257			38,257
Amortisation of intangible asset	54,837	–	–	54,837			54,837
Excess of the JHH Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate	–	–	(127,068,200)	(127,068,200)	127,068,200	(ix)	–
Loss on disposal of fixed assets	77,991	–	–	77,991			77,991
Finance costs	748,945	–	–	748,945	10,006,875	(v)	86,843,695
					76,087,875	(vi)	
Interest income	(587,467)	–	–	(587,467)			(587,467)
Operating profit/(loss) before working capital changes	18,841,409	–	(3,525,860)	15,315,549			18,830,073

	The Group year ended 31.3.2007	Imare period from 2.1.2008 (date of incorporation) to 31.1.2008	JHH Group year ended 31.12.2007	Subtotal	Pro forma adjustments	*Notes*	The Enlarged Group
	HK$	*HK$*	*HK$*	*HK$*	*HK$*		*HK$*
Increase in inventories	(6,583,816)	–	–	(6,583,816)			(6,583,816)
Decrease in trade and bills receivables	767,238	–	–	767,238			767,238
Increase in deposits, prepayments and other receivables	(1,879,196)	–	–	(1,879,196)			(1,879,196)
Decrease in sales deposits received	(288,117)	–	–	(288,117)			(288,117)
Increase in trade and bills payables	7,290,079	–	–	7,290,079			7,290,079
Increase in due to a director	–	–	11,564	11,564	(11,564)	(xi)	–
Increase in other payables and accruals	7,464,470	–	–	7,464,470	11,564	(xi)	7,476,034
Cash generated from/(used in) operating activities	25,612,067	–	(3,514,296)	22,097,771			25,612,295
Interest paid	(748,945)	–	–	(748,945)			(748,945)
Hong Kong profits tax paid	(56,080)	–	–	(56,080)			(56,080)
Net cash generated from/ (used in) operating activities	24,807,042	–	(3,514,296)	21,292,746			24,807,270

	The Group year ended 31.3.2007	Imare period from 2.1.2008 (date of incorporation) to 31.1.2008	JHH Group year ended 31.12.2007	Subtotal	Pro forma adjustments	Notes	The Enlarged Group
	HK$	*HK$*	*HK$*	*HK$*	*HK$*		*HK$*
CASH FLOWS FROM INVESTING ACTIVITIES							
Divided paid	(83,280)	–	–	(83,280)			(83,280)
Interest received	587,467	–	–	587,467			587,467
Increase in due from immediate parent	–	(390,030)	–	(390,030)	390,030	(xi)	–
Purchase of fixed assets	(7,331,285)	–	–	(7,331,285)			(7,331,285)
Proceeds form disposal of fixed assets	21,097	–	–	21,097			21,097
Acquisition of a subsidiary	–	–	–	–	(546,000,000)	(iii)	(545,996,035)
					3,965	(viii)	
Purchase of intangible asset	(389,300)	–	–	(389,300)			(389,300)
Net cash used in investing activities	(7,195,301)	(390,030)	–	(7,585,331)			(553,191,336)
CASH FLOWS FROM FINANCING ACTIVITIES							
Repayment of bank loans	(4,133,124)	–	–	(4,133,124)			(4,133,124)
Bank loans raised	5,041,650	–	–	5,041,650			5,041,650
Net borrowings of trust receipt and trade financing loans	1,826,039	–	–	1,826,039			1,826,039
Repayment of finance lease payables	(235,970)	–	–	(235,970)			(235,970)
Convertible bonds expenses paid	–	–	–	–	(18,750,000)	(v)	(45,250,000)
					(26,500,000)	(vii)	
Proceeds from issue of shares	–	390,030	–	390,030	(390,030)	(xi)	–
Proceeds from issue of convertible bonds	–	–	–	–	750,000,000	(ii)	750,000,000
Net cash generated from financing activities	2,498,595	390,030	–	2,888,625			707,248,595

	The Group year ended 31.3.2007	Imare period from 2.1.2008 (date of incorporation) to 31.1.2008	JHH Group year ended 31.12.2007	Subtotal	Pro forma adjustments	Notes	The Enlarged Group
	HK$	*HK$*	*HK$*	*HK$*	*HK$*		*HK$*
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	20,110,336	–	(3,514,296)	16,596,040			178,864,529
Effect of foreign exchange rate changes	1,713,140	–	3,514,524	5,227,664	(3,514,524)	(ix)	1,713,140
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD	24,362,335	–	3,965	24,366,300	(3,965)	(viii)	24,362,335
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	46,185,811	–	4,193	46,190,004			204,940,004
ANALYSIS OF CASH AND CASH EQUIVALENTS							
Bank and cash balances	46,185,811	–	4,497	46,190,308	750,000,000	(ii)	204,940,308
					(546,000,000)	(iii)	
					(18,750,000)	(v)	
					(26,500,000)	(vii)	
Bank overdraft	–	–	(304)	(304)			(304)
	46,185,811	–	4,193	46,190,004			204,940,004

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) The adjustment is to reflect the effect of the issuance of Consideration Shares by the Company upon completion of the Acquisition as if the Acquisition had taken place on 31 March 2007.

	HK$
Share capital	
Issuance of Consideration Shares (being 230,000,000 Shares)	2,300,000
Premium on share issues	
Issuance of Consideration Shares	25,300,000
	27,600,000

The closing price of the Shares as at 30 March 2007 is HK$0.12 per share, and the total consideration of the Consideration Shares as at 31 March 2007 is HK$27,600,000. Pursuant to the terms set out in "THE SALE & PURCHASE AGREEMENT" under the section of "LETTER FROM THE BOARD" in the Circular, 230,000,000 new Shares to be allotted and issued by the Company at HK$0.80 per Share as partial consideration for the Acquisition. The difference of the fair value per share as at 31 March 2007 compared to Consideration Share is summarised as follow:

	HK$
Premium on Consideration Shares issues	
Issuance of Consideration Shares at HK$0.80	181,700,000
Issuance of Consideration Shares at HK$0.12	25,300,000
Shortfall	156,400,000

The shortfall amounted to HK$156,400,000 relates to the difference of the fair value per Share at HK$0.12 as at 30 March 2007 compared to HK$0.80 as stated above.

(ii) The adjustment represents the Convertible Bonds issued for the purpose of the Acquisition as if the Acquisition had taken place on 31 March 2007. It is assumed that (1) Convertible Bonds Placing, on a best effort basis, of a maximum amount of HK$750,000,000 detailed in accordance with the terms set out in "THE CB PLACING AGREEMENT" under the section of "LETTER FROM THE BOARD" in the Circular; (2) HK$170,000,000 from the issue of the Consideration Convertible Bonds detailed in accordance with the terms set out in "THE SALE & PURCHASE AGREEMENT" under the section of "LETTER FROM THE BOARD" in the Circular. The Convertible Bonds have a maturity period of 5 years and bears interest at 1% per annum payable yearly in arrears. The valuation of the Convertible Bonds was carried out by Vigers Appraisal & Consulting Limited, an independent firm of chartered surveyors. The fair value of the derivative component of the Convertible Bonds is estimated using the Binomial Option Pricing model amounted to HK$449,000,000. The liability component of the Convertible Bonds is HK$471,000,000, being the balancing figure. The accounting treatments are in accordance with HKAS 32 "Financial Instruments: Presentation" and HKAS 39, "Financial Instruments: Recognition and Measurement".

On 26 March 2008, the Company and GEM Global Yield Fund Limited ("GGYFL"), the holding company of Grand Pacific Source Limited ("Vendor") , entered into the subscription agreement pursuant to which the Company conditionally agreed to issue and GGYFL conditionally agreed to subscribe for the subscription bonds in the aggregate principal amount of HK$540,000,000. The subscription bonds to be subscribed by GGYFL forms part of the placing Convertible Bonds.

(iii) The adjustment is to reflect the effect of the settlement of the Sale Loan and Mengxi Debt upon completion detailed in accordance with the terms set out in the "THE SALE & PURCHASE AGREEMENT" which is subject to the terms set out in the "Conditions Precedent" in connection with the terms set out in "THE SALE & PURCHASE AGREEMENT" under the section of "LETTER FROM THE BOARD" in the Circular. On 1 February 2008, Coastal Kingfold Finance Limited, a wholly owned subsidiary of the Company, entered into Sale and Purchase Agreement with the Vendor to acquire the entire issued share capital in Imare and Sale Loan, upon satisfying the conditions precedent detailed in accordance with the terms set out in Note 2 of "INFORMATION ON THE IMARE GROUP" under the section of "LETTER FROM THE BOARD" in the Circular. It is assumed that the Acquisition had taken place on 31 March 2007 and that the fair value of the total consideration for the Acquisition is for an aggregate consideration of up to HK$743,600,000 which shall be satisfied in the following manners:

	HK$
Issuance of Consideration Shares *(Note i)*	27,600,000
Issuance of Consideration Convertible Bonds	170,000,000
Cash consideration	546,000,000
	743,600,000

Upon completion of the Acquisition, the Company has to pay the Vendor by way of cash the aggregate amount of all advances, loans and indebtedness which shall remain due or owing from JHH to the Vendor as at the Acquisition completion date and the balance of consideration payable by JHH to Inner Mongolia Mengxi Gaoxing High Tech Limited for the acquisition by JHH of the 49% equity interest in the Inner Mongolia Mengxi Minerals Limited. The cash consideration of HK$546,000,000 (including RMB231,700,000 (which is equivalent to HK$233,871,029) payable to Inner Mongolia Mengxi Gaoxing High Tech Limited and HK$312,128,971 being the remaining balance of the cash consideration of HK$546,000,000 minus RMB231,700,000 mentioned and payable to the Vendor) shall be financed by the net proceeds from the issuance of placing Convertible Bonds. It is assumed that no payment has been made by the Vendor before completion and the total consideration of the 49% equity interest in the Inner Mongolia Mengxi Minerals Limited is RMB 231,700,000 at the exchange rate of 1.00937 as at 31 March 2007, which is equivalent to HK$233,871,029. Details of use of proceed are assumed as follow:

	HK$
Cash consideration	546,000,000
Less: Consideration for acquisition 49% equity interest in the Inner Mongolia Mengxi Minerals Limited (Mengxi Debt & Sale Loan) by JHH and payable to Inner Mongolia Mengxi Gaoxing High Tech Limited	(233,871,029)
Consideration payable to the Vendor for the Acquisition upon completion	(312,128,971)
	–

(iv) The goodwill of JHH Group is calculated as follows:

	HK$
Investment cost *(Note iii)*	743,600,000
Less:	
Fair value of net identifiable assets:	
Net assets of JHH Group	127,021,279
Sale Loan settled	233,871,029
Investment in Imare	390,030
	361,282,338
Add:	
Professional expense incurred for the Acquisition *(Note vii)*	26,500,000
Deferred tax liability *(Note x)*	37,447,746
	63,947,746
Goodwill	446,265,408

It is assumed that the net investment cost is adjusted to HK$743,600,000 based on the fair value of the shares as at 31 March 2007. Goodwill represents the excess of the consideration for the Acquisition and cost directly attributable to the Acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the JHH Group. Since the net fair value of the identifiable assets, liabilities and contingent liabilities of the JHH Group as at the completion date of the Acquisition may be different from their fair values used in the preparation of the unaudited pro forma financial information presented above, the actual goodwill arising from the Acquisition, if any, may be different from the estimated amount as presented above.

(v) The adjustment is to reflect the effect of placing fee with respect to the issue of Placing Convertible Bond upon completion detailed in accordance with the terms set out in the "THE CB PLACING AGREEMENT" under the section of "LETTER FROM THE BOARD" to the Circular. Details of placing fee arising on the issue of Placing Convertible Bond as if the Convertible Bonds had issued on 1 April 2006 are as follows:

	HK$
Placing fee arising for debt component of the Convertible Bonds	8,743,125
Placing fee arising for derivative component of the Convertible Bonds	10,006,875
	18,750,000

Details of placing fee arising on the issue of Placing Convertible Bonds as if the Convertible Bonds had issued on 31 March 2007 are as follows:

	HK$
Placing fee arising for debt component of the Convertible Bonds	9,599,185
Placing fee arising for derivative component of the Convertible Bonds	9,150,815
	18,750,000

The placing fee is allocated pro rata to the value of respective components of the Convertible Bonds. The placing fee arising for the liability portion is netted off against respective liability whereas the placing fee arising for derivative component is directly expensed off in the pro forma consolidated income statement. The above accounting treatments are in accordance with HKAS 32 "Financial Instruments: Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". This adjustment will not have continuing effect on the Enlarged Group in subsequent financial years.

(vi) The adjustment is to reflect the effective interest expenses of approximately HK$76,087,875 arise from the liability component of the Convertible Bond with a principal amount of HK$920,000,000 and is assumed that at the completion of the Acquisition is on 1 April 2006. For the purpose of this pro forma financial information, the debt component of the Convertible Bonds is determined based on an effective interest rate of approximately 18.11% per annum. This adjustment will have continuing effect on the Enlarged Group in the subsequent financial years.

(vii) The adjustment is to reflect the effect of the professional expenses to be incurred with respect to the Acquisition as estimated by the management. In accordance with HKFRS 3, "Business Combinations", such costs shall be capitalised.

(viii) The adjustment is to reflect the effect of cash flows arising from the Acquisition on the consolidated cash flow statement of the Group as if the Acquisition had taken place on 1 April 2006 and is detailed as follows:

	HK$
Cash consideration to be paid to the Vendor *(Note iii)*	546,000,000
Cash and cash equivalents in the JHH Group	(3,965)
Net cash outflow on acquisition	545,996,035

(ix) The adjustment is to eliminate the effect of the excess of the JHH Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate and the foreign exchange loss as if JHH Group acquired its associate and settled all the amounts due to the vendor, Inner Mongolia Mengxi Gaoxing High Tech Limited, for acquiring the associate are completed on 31 March 2006 as the effect of the excess of the JHH Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the associate and the foreign exchange loss arose would have no financial impact on the pro forma consolidated income statement of the Enlarged Group as if the Acquisition completed on 1 April 2006.

(x) The adjustment is to reflect the effect of taxable temporary difference under HKAS 12 "Income Taxes" due to PRC dividend withholding tax. It is based on 10% of the carrying value with respect to the associate of the Group.

(xi) The adjustment is to reflect the effect of the reclassification of amount due from immediate parent to other receivables and due to a director to other payables and the elimination of share capital of Imare as if the Acquisition had taken place on 31 March 2007.

F. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

29th Floor,
Caroline Centre,
Lee Gardens Two,
28 Yun Ping Road,
Hong Kong

30 April 2008

The Board of Directors,
Challenger Group Holdings Limited,
Unit A1,
6/F, Mai Hing Industrial Building,
16-18 Hing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Challenger Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Imare Company Limited might have affected the financial information of the Group presented, for inclusion in Appendix IV to the circular of the Company dated 30 April 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 134 to 146 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibilities solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM 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 31(7) of Chapter 7 of the GEM 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 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. The 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 31(1) of Chapter 7 of the GEM 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 March 2007 or any future date; or
- the results and cash flows of the Group for the year ended 31 March 2007 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 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

INDEBTEDNESS

As at the close of business on 29 February 2008, being the latest practicable date for this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK$3.2 million, comprising unsecured amounts due to minority shareholders of approximately HK$3.2 million and which are not guaranteed.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 29 February 2008, the Enlarged Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

WORKING CAPITAL

Assuming that all of the 108 million Placing Shares and all the remaining Placing Convertible Bonds (other than the Subscription Bonds to be subscribed by GGYFL) of an aggregate principal amount of HK$210 million has been fully placed by the Placing Agent, as at the Latest Practicable Date, the Directors are of the opinion that taking into consideration the financial resources available to the Enlarged Group, including its internally generated funds, the Enlarged Group will have sufficient working capital for its present requirements.

The Acquisition and the CB Placing are inter-conditional and it is one of the conditions precedent to the CB Placing that the aggregate principal amount of the Placing Convertible Bonds to be issued at the CB Placing Completion is HK$600 million. Should the minimum aggregate principal amount of HK$600 million is raised under the Placing Convertible Bonds, the Directors are of the opinion that with the cash and bank balances of the Group of approximately HK$120.56 million as at 29 February 2008, even without the equity financing from the Share Placing, the Enlarged Group will have sufficient working capital for its present requirements.

The following is the text of the letter and valuation summary report received from Vigers Appraisal & Consulting Limited in connection with its valuation as at 29 February 2008 of the Enlarged Group, which has been prepared for the purpose of incorporation in this circular. A full valuation report prepared by Vigers has been made available for inspection.

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

30 April 2008

The Directors
Challenger Group Holdings Limited
Unit A1,
6/F, Mai Hing Industrial Building,
16-18 Hing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests exhibited to us as held by Challenger Group Holdings Limited (the "Company") or its subsidiaries (collectively referred to as "the Group") in the Hong Kong Special Administrative Region ("Hong Kong"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 29 February 2008 (the "date of valuation") for incorporating into the circular.

Our valuation is our opinion of the market value of the property interest which we would define 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 in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The properties have been ascribed as no commercial value due to either the short-term nature of their tenancy/licence agreements or the lack of substantial profit rent.

Our valuation has been made on the assumption that the owners sell the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation.

We have caused searches to be made at the Land Registry and have been provided with copies of tenancy/licence agreements relating to those properties. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents and leases have been used for reference only.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas, development plan, construction costs, identification of the properties and other relevant matters. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the summary of valuation are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

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

In valuing the property interests, we have complied with the requirements set out in Chapter 8 in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors ("HKIS").

The property interests are held under operating licences or leases as prescribed in Rule 8.07. In accordance with Rule 8.06, we enclosed a summary of the property interests herewith. A full valuation report in compliance with Rule 8.06 (3) and made as available to the Exchange and for inspection has been prepared.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited

Raymond Ho Kai Kwong
Registered Professional Surveyor
MRICS MHKIS MSc(e-com)
Executive Director

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS has over nineteen years' experience in undertaking valuations of properties in Hong Kong and Macau and has over twelve years' experience in the valuation of properties in the PRC. Mr. Ho has been working with Vigers Group since 1989.

SUMMARY OF VALUATION

Property interests licenced or leased to and occupied by the Group in Hong Kong

Property	Description	Particulars of occupancy	Capital Value in existing state as at 29 February 2008
25 licensed or leased properties in Hong Kong	The properties comprises 88 designated car parking spaces in 19 separate multi-storey carparks completed in between 1977 and 2007; 5 industrial units having a total gross floor area of approximately 26,261 sq. ft. in 5 different industrial buildings completed in between 1974 and 1987; and a land lot having an area of approximately 6,000 sq.ft.	The properties are licensed or leased to Challenger Auto Services Limited from various independent third parties for the year terms of not more than 3 years expiring on or before 12 October 2010. The current aggregated monthly base license fee and rent is around HK$1,068,000, exclusive of any turnover licence fee. The car parking spaces are held and occupied by the Group as car care service centres and the remaining properties as garage, storage and ancillary office purposes.	No commercial value

Notes:

i. The properties comprises the followings:

1. Carparking Spaces Nos.134 to 138, Harbour Road Car Park, Convention Plaza, No.1 Harbour Road, Wanchai.
2. Designated areas on Level LG2, Multi-Storey Car Park, Pacific Place, No.88 Queensway, Admiralty.
3. Carparking Spaces Nos.302 and 304 on 3rd Floor, Leighton Centre, No.77 Leighton Road, Causeway Bay.
4. Carparking Spaces Nos.62, 63 and 64 on B3 Floor, The Lee Gardens, No.33 Hysan Avenue, Causeway Bay.
5. Designated areas on Second Basement Level, City Plaza, No.18 Taikoo Shing Road, Island East.
6. Car Parking Spaces Nos.126 to 129 and 130 to 133 on Basement Level 1, The Peak Galleria, No.118 Peak Road, The Peak.
7. Parking Bay Nos.1059 to 1065, First Floor, Hong Kong Scout Centre, No.8 Austin Road, Tsimshatsui.
8. Car Parking Spaces Nos.5 to 10, and 36 and 36A on Basement 3, New World Centre Car Park, Nos.18-24 Salisbury Road, Tsimshatsui.

9. Carparking Spaces Nos.L113 and L114, First Basement, Site 2, Whampoa Garden, Hunghom.

10. Carparking Spaces Nos.49 to 52, Car Park Basement Three Floor, Pioneer Centre, No.750 Nathan Road, Mongkok.

11. Carparking Spaces Nos.45 to 47, Ground Floor, Olympian City 2, No.18 Hoi Ting Road, West Kowloon.

12. Car Parking Spaces Nos.A178 to A183, Carpark A, Lok Fu Shopping Centre, Junction Road, Wang Tau Hom.

13. Designated areas in the Multi-Storey Car Park, Level P2, The Festival Walk, No.80 Tat Chee Avenue, Kowloon Tong.

14. Car Parking Spaces Nos.98 to 102, Level 14, MegaBox, Enterprise Square Five, No.38 Wang Chiu Road, Kowloon Bay.

15. Car Parking Spaces Nos.604 to 607, Third Floor, Amoy Plaza Car Park, Amoy Plaza, Ngau Tau Kok.

16. A designated area on Ground Floor, Retail Car Park, Maritime Square, Tierra Verde, No.33 Tsing King Road, Tsing Yi.

17. Designated areas on the Basement Level 2, Citygate, No.20 Tat Tung Road, Tung Chung, Lantau Island.

18. Designated carparking spaces on Basement 2, Grand Central Plaza, No.138 Shatin Rural Committee Road, Shatin.

19. Five reserved private car parking spaces on Third Floor, Shatin Galleria, Nos.18 to 24 Shan Mei Street, Fotan.

20. Lower Ground Floor, Tak King Industrial Building, No.27 Lee Chung Street, Chai Wan.

21. Factories B and D, Ground Floor, Mai Hing Industrial Building, Hing Yip Industrial Centre Phase I, Blocks A and B, Nos.16-18 Hing Yip Street, Kwun Tong.

22. Units G01A, G02A and G03 on Ground Floor, Park Sun Factory Building, Nos.97 to 107 Wo Yip Hop Road, Kwai Chung.

23. Factory No.3 on 17th Floor, Hong Man Industrial Centre, No.2 Hong Man Street, Chai Wan.

24. Unit A1 on 6th Floor, Mai Hing Industrial Building, Nos.16-18 Hing Yip Street, Kwun Tong.

25. Lot Nos.629Q and 630B15, Pang Ka Village, Kam Tin, Yuen Long.

ii. According to the Company, Challenger Auto Services Limited is 51% indirectly owned by the Company.

iii. The Company has confirmed that the licences and lease agreements have been entered with the registered owners or their agents and the agreements are valid and effective.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SHARE CAPITAL

The authorized and issued share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Share Placing Completion; (iii) immediately upon the Share Placing Completion and the issue of the Consideration Shares but before the conversion of the Consideration Convertible Bonds; and (iv) immediately upon the Share Placing Completion, the issue of the Consideration Shares and the full conversion of the Consideration Convertible Bonds and the Placing Convertible Bonds were as follows:

(i) As at the Latest Practicable Date

Authorised share capital:		*HK$*
10,000,000,000	ordinary shares of HK$0.01 each	100,000,000.00
Issued and fully paid share capital:		*HK$*
540,000,000	ordinary shares of HK$0.01 each	5,400,000.00

(ii) Immediately upon the Share Placing Completion *(Note 1)*

Authorised share capital:		*HK$*
10,000,000,000	ordinary shares of HK$0.01 each	100,000,000.00
Issued and fully paid share capital:		*HK$*
648,000,000	ordinary shares of HK$0.01 each	6,480,000.00

(iii) Immediately upon the Share Placing Completion and the issue of the Consideration Shares but before the conversion of the Consideration Convertible Bonds *(Note 1)*

Authorised share capital:		*HK$*
10,000,000,000	ordinary shares of HK$0.01 each	100,000,000.00

Issued and fully paid share capital:		*HK$*
878,000,000	ordinary shares of HK$0.01 each	8,780,000.00

(iv) Immediately upon the Share Placing Completion, the issue of the Consideration Shares and the full conversion of the Consideration Convertible Bonds and the Placing Convertible Bonds *(Notes 1 and 2)*

Authorised share capital:		*HK$*
10,000,000,000	ordinary shares of HK$0.01 each	100,000,000.00

Issued and fully paid share capital:		*HK$*
1,798,000,000	ordinary shares of HK$0.01 each	17,980,000.00

Notes :

1. Assuming that all of the 108 million Placing Shares are fully placed by the Placing Agent.

2. Subject to the Conversion Cap, the maximum number of the Conversion Shares falling to be issued under the Consideration Convertible Bonds and the Placing Convertible Bonds are 170 million and 750 million Conversion Shares respectively.

All the existing Shares rank pari passu in all respects with each other including rights to dividends, voting and return of capital.

When issued and fully paid, the Placing Shares, the Consideration Shares and the Conversion Shares will rank pari passu in all respects with the Shares then in issue. Holders of the fully-paid Placing Shares, Consideration Shares and Conversion Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Placing Share, Consideration Shares and Conversion Shares in their fully-paid form.

DISCLOSURE OF INTERESTS

(i) Interests and short positions of the Directors and chief executives of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (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 he is taken or deemed to have under such provisions of the Securities and Futures Ordinance), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors:

Long position in underlying Shares

Name of Director	Capacity	Number of Shares *(Note)*	Approximate percentage of the total issued Shares
Tse Chun Sing	Beneficial owner	5,400,000	1%
Wu Kam Hung	Beneficial owner	5,400,000	1%
Liew Swee Yean	Beneficial owner	540,000	0.1%
Siu Siu Ling, Robert	Beneficial owner	540,000	0.1%
Wong Yun Kuen	Beneficial owner	540,000	0.1%

Note:

The long position in the underlying Shares mentioned above represent the Shares to be issued and allotted upon the exercise in full of the options granted by the Company to the above mentioned directors pursuant to the share option scheme of the Company.

Save as disclosed above as at the Latest Practicable Date, none of the Directors or the chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any associated corporation (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, or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors.

(ii) Interests and short positions of substantial Shareholders in Shares and underlying Shares

So far as is known to the Directors or the chief executives of the Company, as at the Latest Practicable Date, the following persons (not being Directors or the chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly 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 member of the Enlarged Group:

(i) Long position in the Shares or underlying Shares

Name of Shareholder	**Capacity**	**Number of Shares**	*Notes*	**Approximate percentage of the total issued Shares**
Plowright Investments Limited	Beneficial owner	81,001,000	1	15.00%
Harmony Asset Limited	Interest of a controlled corporation	81,001,000	1	15.00%
Gold Master	Beneficial owner	81,000,000	2	15.00%
Mr. Wong Wai Keung, Dennis	Interest of a controlled corporation	81,000,000	2	15.00%
Excel Formation Limited	Beneficial owner	60,944,000	3	11.29%
Cheng Yu Tung	Interest of a controlled corporation	83,826,500	4	15.52%
GGYFL	Beneficial owner/ Interest of a controlled corporation *(Note 5)*	1,021,000,000		189.07%
Brown Christopher Francis	Investment manager	81,000,000		15%

(ii) Short position in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares	*Notes*	Approximate percentage of the total issued Shares
Gold Master	Beneficial owner	81,000,000	2	15.00%
Mr. Wong Wai Keung, Dennis	Interest of a controlled corporation	81,000,000	2	15.00%

(iii) Long position in shares in the member of the Enlarged Group (other than the Company)

Name of shareholder	Name of company	Capacity	Nature and class of shares	Appropriate percentage of total relevant class of shares
Mengxi HT	Mengxi Chemical	Beneficial owner	Registered capital of RMB 24 million	30%

Notes:

1. Plowright Investments Limited is a wholly-owned subsidiary of Harmony Asset Limited, the shares of which are listed on the main board of the Stock Exchange. Harmony Asset Limited is deemed to be interested in the 81,001,000 Shares held by Plowright Investments Limited under the SFO.

2. Gold Master is wholly-owned by Mr. Wong Wai Keung, Dennis. Mr. Wong Wai Keung, Dennis is deemed to be interested in 81,000,000 Shares held by Gold Master under the SFO.

3. Excel Formation Limited is wholly-owned by Cheng Yu Tung, who is deemed to be interested in 60,944,000 Shares held by Excel Formation Limited under the SFO.

4. These Shares are held as to 22,882,500 Shares by Huge Mars International Limited and 60,944,000 Shares by Excel Formation Limited. Each of Huge Mars International Limited and Excel Formation Limited is wholly-owned by Cheng Yu Tung, who is deemed to be interested in the 22,882,500 Shares held by Huge Mars International Limited and 60,944,000 Shares held by Excel Formation Limited under the SFO.

5. Grand Pacific is interested in 400,000,000 Shares out of 1,021,000,000 Shares. Grand Pacific is wholly-owned by GGYFL, which is deemed to be interested in these 400,000,000 Shares under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORSHIP HELD IN THE SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, there is no common director between the Company and the substantial Shareholders which is a corporation.

INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors is materially interested in contract or arrangement subsisting which is significant in relation to the business of the Enlarged Group.

INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors has any material direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Enlarged Group or is proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2007, being the date on which the latest published audited accounts of the Company were made up.

LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, none of the member of the Enlarged Group was engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, management shareholders (as defined under the GEM Listing Rules) and their respective associates had any interest in a business, which competes or may compete with the business of the Company or any of its subsidiaries.

EXPERTS AND CONSENTS

The qualifications of the experts who have given opinion in this circular are as follows:

Name	Qualification
RSM Nelson Wheeler	Certified Public Accountants
Vigers Appraisal & Consulting Limited	property valuer
Ample Capital	a licensed corporation under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities

As at the Latest Practicable Date, each of RSM Nelson Wheeler, Vigers Appraisal & Consulting Limited and Ample Capital has no shareholding in any company in the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Enlarged Group and has no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2007, being the date on which the latest published audited accounts of the Company were made up.

Each of RSM Nelson Wheeler, Vigers Appraisal & Consulting Limited and Ample Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

NO MATERIAL ADVERSE CHANGE

Since 31 March 2007, being the date to which the latest published audited accounts of the Company have been made up, the Directors confirm that there was no material adverse change in the financial or trading position of the Group.

MATERIAL CONTRACTS

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

(a) the share subscription agreement dated 18 June 2007 entered into between Time Creation Group Limited (a wholly-owned subsidiary of the Company) and Global On-Line Distribution Limited in relation to (i) the subscription of 5,100 new shares in Global On-Line Distribution Limited, representing 51% of the enlarged entire issued share capital of Global On-Line Distribution Limited at a consideration of HK$5,100 and (ii) advance of shareholder loan of HK$2,250,000, details of which is set out in the announcement of the Company dated 18 June 2007 and the letter from the Board in the Company's circular dated 28 September 2007;

(b) the share subscription agreement dated 11 July 2007 entered into between High Focus Group Limited (a wholly-owned subsidiary of the Company) and Long Capital Development Limited in relation to the subscription of 5,100 new shares in Long Capital Development Limited, representing 51% of the entire issued share capital of Long Capital Development Limited as enlarged by the new shares, at consideration of HK$10,000,000. A summary of the terms of the share subscription agreement is set out in the announcement of the Company dated 13 July 2007 and the letter from the Board in the Company's circular dated 26 July 2007;

(c) the sale and purchase agreement dated 20 August 2007 entered into between the Company as vendor, STEELCASE ASIA PACIFIC HOLDINGS LLC, as purchaser and STEELCASE INC., as guarantor of the purchaser (as supplemented by the amendment agreement dated 14 September 2007) in respect of the disposal of 10,000 issued shares of US$1.00 each in the share capital of Ultra Group Company Limited by the Company at a cash consideration of US$13.28 million (equivalent to approximately HK$103,584,000), details of which are set out in the Company's circular dated 28 September 2007;

(d) the Sale and Purchase Agreement;

(e) the CB Placing Agreement;

(f) the Share Placing Agreement;

(g) the Supply Agreement; and

(h) the Subscription Agreement.

GENERAL

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company and the business address of the Directors and senior management of the Group is at Unit A1, 6/F, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong.

(c) The share registrar and transfer agent of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Ms. Leung Ngar Yee. She is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, United Kingdom. The compliance officer of the Company is Mr. Wu Kam Hung. Mr. Wu is the Associate Member of Institute of Financial Accountancy.

(e) The Company has established an audit committee on 9 December 2003 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Liew Swee Yean, Mr. Siu Siu Ling, Robert and Dr. Wong Yun Kuen, and Mr. Liew Swee Yean is the chairman of the audit committee.

Mr. Liew Swee Yean, aged 43, joined the Group in November 2006. Mr. Liew is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Liew holds a Master of Business Administration (Executive) Degree from the City University of Hong Kong. He has been an independent non-executive director of Byford International Limited, a company listed on the GEM of the Stock Exchange from 28 March 2006 to 7 September 2007. Mr. Liew is also an executive director of Autism Recovery Network Limited and a director of business development of eBroker Systems Limited.

Mr. Siu Siu Ling, Robert, aged 55, joined the Group in December 2002 and is a partner of the firm Messrs. Robert Siu & Co., Solicitors. Mr. Siu has been an executive director of Maxx Bioscience Holdings Limited until 28 June 2006 and is now an independent non-executive director of Incutech Investments Limited, both of which are listed on the Main Board of the Stock Exchange. Mr. Siu holds a bachelor degree in laws and a postgraduate certificate in laws. He has been a solicitor of Hong Kong since 1992 and has been admitted as solicitor of England and Wales since 1993. His practice is mainly in the field of commercial and corporate finance.

Dr. Wong Yun Kuen, aged 50, joined the Group in September 2004. He holds a Ph.D. degree from Harvard University and was the "Distinguished Visiting Scholar" at Wharton School of the University of Pennsylvania. Dr. Wong has worked in the financial industries in the United States and Hong Kong for many years, and has over 10 years of experience in corporate finance, investment and derivative products. He is a member of Hong Kong Securities Institute. Dr. Wong is an executive director of UBA Investments Limited, and an independent non-executive director of Grand Field Group Holdings Limited, Harmony Asset Limited, Golden Resorts Group Limited, Bauhaus International (Holdings) Limited, Superb Summit International Timber Company Limited (formerly known as Tak Shun Technology Group Limited), Poly Investments Holdings Limited, Kong Sun Holdings Limited, Climax

International Company Limited and Prosticks International Holdings Limited. Dr. Wong has been an independent non-executive director of Haywood Investments Limited until 7 July 2005. All the aforesaid companies are listed on the main board of the Stock Exchange.

(f) In any event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. on any Business Day at the office of Chiu & Partners at 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong from the date of this circular up to and including 14 days thereafter:

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

(b) the annual reports of the Company for each of the two years ended 31 March 2007;

(c) the accountants' report of Imare, the text of which is set out in Appendix II to this circular;

(d) the accountants' report of the Joy Harvest Group, the text of which is set out in Appendix III to this circular;

(e) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(f) the letter from RSM Nelson Wheeler setting out their opinions on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the letter from the Independent Board Committee, the text of which set out on page 54 to this circular;

(h) the letter of advice from Ample Capital, the text of which set out on pages 55 to 61 to this circular;

(i) the full property valuation report prepared by Vigers Appraisal & Consulting Limited, the summary of which set out in Appendix V to this circular;

(j) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(k) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(l) the circulars of the Company issued pursuant to the requirements set out in Chapters 19 and/ or 20 of the GEM Listing Rules since 31 March 2007.

CHALLENGER GROUP HOLDINGS LIMITED
挑戰者集團控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8203)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Challenger Group Holdings Limited (the "**Company**") will be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong on 20 May 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the share transfer agreement dated 1 February 2008 and entered into among (i) Coastal Kingfold Finance Limited ("**Coastal Kingfold**"), a wholly owned subsidiary of the Company as purchaser, (ii) Grand Pacific Source Limited ("**Grand Pacific**") as vendor and (iii) GEM Global Yield Fund Limited ("**GGYFL**") as guarantor of Grand Pacific, in relation to the acquisition (the "**Acquisition**") of the entire issued share capital of Imare Company Limited and the aggregate amount of all advances, loans and indebtedness which shall remain due or owing from Joy Harvest Holdings Limited to Grand Pacific as at the date of completion of the Acquisition, as set out in the circular (the "**Circular**") of the Company dated 30 April 2008 (copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification), as amended and supplemented by the supplemental agreement dated 25 April 2008 and entered into among Coastal Kingfold, Grand Pacific and GGYFL (the "**Sale and Purchase Agreement**") (copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved;

(b) the issue of the Consideration Shares (as defined in the Circular) as set out in the Circular, on and subject to the terms of the Sale and Purchase Agreement, be and it is hereby approved;

(c) the creation and issue of the Consideration Convertible Bonds (as defined in the Circular) as set out in the Circular, on and subject to the terms of the Sale and Purchase Agreement, be and it is hereby approved;

(d) the directors of the Company (the "**Directors**") (or a duly authorised committee thereof) be and they are hereby authorised to allot and issue such number of new shares in the capital of the Company as may be allotted and issued upon the exercise of conversion rights in full attaching to the Consideration Convertible Bonds;

* *For identification purpose only*

(e) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to amend the terms and conditions of the Consideration Convertible Bonds before or after the issue of the Consideration Convertible Bonds as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company; and

(f) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps which, in the opinion of the Directors (or a duly authorised committee thereof), are necessary, appropriate, desirable or expedient to give effect to or implement the terms of the Sale and Purchase Agreement, the issue of the Consideration Shares and the issue of the Consideration Convertible Bonds or any of the transactions contemplated under the Sale and Purchase Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee hereof), in the interests of the Company."

2. "**THAT**

(a) the conditional convertible bonds placing agreement dated 1 February 2008 and entered into between the Company and Oriental Patron Asia Limited ("**Oriental Patron**") in relation to the placing of the convertible bonds with an aggregate principal amount of up to HK$750 million (the "**Placing Convertible Bonds**") by Oriental Patron as set out in the Circular, as amended and supplemented by the supplemental agreement dated 25 April 2008 and entered into between the Company and Oriental Patron (the "**CB Placing Agreement**") (copy of which has been produced to the meeting marked "C" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved;

(b) the conditional subscription agreement (the "**Subscription Agreement**") dated 26 March 2008 and entered into between the Company and GGYFL in relation to the subscription for the Placing Convertible Bonds in the aggregate principal amount of HK$540 million by GGYFL as set out in the Circular, as amended and supplemented by the supplemental agreement dated 25 April 2008 and entered into between the Company and GGYFL (copy of which has been produced to the meeting marked "D" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby be and they are hereby approved;

(c) the creation and issue of the Placing Convertible Bonds as set out in the Circular, on and subject to the terms of the CB Placing Agreement and if applicable, the Subscription Agreement, be and it is hereby approved;

(d) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to allot and issue such number of new shares in the capital of the Company as may be allotted and issued upon the exercise of conversion rights in full attaching to the Placing Convertible Bonds;

(e) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to amend the terms and conditions of the Placing Convertible Bonds before or after the issue of the Placing Convertible Bonds as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company; and

(f) the Directors (or a duly authorised committee thereof) be and they are hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps which, in the opinion of the Directors (or a duly authorised committee thereof), are necessary, appropriate, desirable or expedient to give effect to or implement the terms of the CB Placing Agreement, the Subscription Agreement, the issue of the Placing Convertible Bonds or any of the transactions contemplated under the CB Placing Agreement and the Subscription Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors (or a duly authorised committee hereof), in the interests of the Company."

3. "**THAT**

(a) the supply agreement (the "**Supply Agreement**") dated 1 February 2008 and entered into between (i) Ordos GEM Coal & Chemical Co., Ltd. (鄂爾多斯市啟杰蒙西煤化有限公司) as customer and (ii) Inner Mongolia Mengxi Minerals Limited (內蒙古蒙西礦業有限公司) as supplier in relation to the supply of the raw coal as extracted from the Target Mine (as defined in the Circular) and all related coal products and related derivative products (copy of which has been produced to the meeting marked "E" and signed by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereby; and

(b) the Annual Caps (as defined in the Circular) for the transactions contemplated under the Supply Agreement for the three years ending 31 March 2011 as shown in the Circular,

be and they are hereby approved and that the Directors (or a duly authorised committee thereof) be and they are hereby authorised to take any step as they consider necessary, desirable or expedient in connection with the Supply Agreement or the transactions contemplated thereby."

4. "**THAT** Mr. Jonathan Soon P. Yeap be and he is hereby re-elected as a Director and the Directors be and are hereby authorised to determine his remuneration."

By order of the Board
Challenger Group Holdings Limited
TSE Chun Sing
Chairman

Hong Kong, 30 April 2008

Head office and principal place of business in Hong Kong:
Unit A1,
6/F, Mai Hing Industrial Building,
16-18 Hing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company but must attend the meeting in person to represent the member of the Company.

2. In order to be valid, a form of proxy must be deposited at the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. Completion and delivery of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as it he/she/it were solely entitled thereto. If more than one of such joint holders are present at the above meeting, 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. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

5. With regard to ordinary resolution number 4 in this notice, the board of Directors proposes that Mr. Johnathan Soon P. Yeap be re-elected as a Director. Details of his particulars are set out in the Circular.