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

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CHINA INVESTMENTS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

MAJOR TRANSACTION, ONGOING CONNECTED TRANSACTIONS, PLACING OF CONVERTIBLE NOTES AND INCREASE IN AUTHORISED SHARE CAPITAL

Independent financial adviser to the Independent Board Committee



REXCAPITAL (Hong Kong) Limited

A letter from the Independent Board Committee containing its recommendations in respect of the Ongoing Connected Transactions (as defined herein) and the terms and conditions of the Power Supply Agreement is set out on pages 30 and 31 of this circular. A letter from REXCAPITAL (Hong Kong) Limited containing its advice to the Independent Board Committee is set out on pages 32 to 37 of this circular.

A notice convening the special general meeting of China Investments Holdings Limited to be held at Garden Rooms, 2nd Floor, the Royal Garden, 69 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 8th April, 2002 at 10:30 a.m. is set out on pages 109 to 112 of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the enclosed proxy form in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

20th March, 2002

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DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Share and the Sale Loan by the Company from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 19th February, 2002 entered into between the Company and the Vendor in respect of the Acquisition
“Acquisition Completion”	completion of the Acquisition Agreement
“Acquisition Completion Date”	means the 3rd Business Day after the completion of the issue of the Convertible Note(s) and the Company’s full receipt of the net proceeds of not less than HK\$222.0 million from the issue of the Convertible Note(s) (or such other date as the Vendor and the Company may agree in writing)
“Aggregate Consideration”	the aggregate consideration of HK\$270.0 million payable by the Company to the Vendor for the Acquisition
“Announcement”	the announcement dated 26th February, 2002 issued by the Company headed “Major Transaction, Ongoing Connected Transactions, Placing of Convertible Notes, Rights Issue and Increase in Authorised Share Capital”
“associate(s)”	shall have the same meaning as defined in the Listing Rules
“Balance of Consideration”	the sum of HK\$48.0 million being the balance of the Aggregate Consideration
“Board”	the board of Directors
“Business Day(s)”	a day or days on which banks are open for business in Hong Kong (excluding Saturdays and Sundays)
“Can Manage”	Can Manage Trading Limited, a company incorporated in the British Virgin Islands with limited liability
“Company”	China Investments Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are currently listed on the main board of the Stock Exchange
“connected person(s)”	shall have the same meaning as defined in the Listing Rules
“Consideration Conversion Shares”	the new Shares to be issued upon exercise of the conversion rights under the Consideration Note

DEFINITIONS

“Consideration Note”	the convertible note in the aggregate principal amount of HK\$48.0 million which may be issued by the Company to the Vendor pursuant to the Acquisition Agreement
“Conversion Price”	conversion price of the Consideration Note or the Convertible Notes of HK\$0.27 per Conversion Share, subject to adjustment
“Conversion Share(s)”	the Placing Conversion Share(s) and the Consideration Conversion Share(s)
“Convertible Notes”	the 2007 convertible note or notes in units of HK\$1 million each of an aggregate principal amount of HK\$230.0 million to be issued by the Company at completion of the Placing and Underwriting Agreement
“Director(s)”	the director(s) of the Company, including the independent non-executive Directors
“Enlarged Group”	the Group, Can Manage and the PRC Company upon Acquisition Completion
“Group”	the Company and its subsidiaries
“Heng Da”	南海亨達木業有限公司 (Nanhai Heng Da Timber Company Limited), a foreign investment enterprise established in the PRC and beneficially wholly-owned by the Vendor
“Heng Yi”	南海恆益木業有限公司 (Nanhai Heng Yi Timber Company Limited), a foreign investment enterprise established in the PRC and wholly-owned by Smart Giant
“HK GAAP”	the accounting principles generally accepted in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Hua Guang”	南海華光裝飾板材有限公司 (Nanhai Hua Guang Decorative Board Company Limited), a sino-foreign equity joint venture established in the PRC and beneficially owned by Mr. Feng and Madam Lu
“Hua Ying”	南海華盈木業有限公司 (Nanhai Hua Ying Timber Company Limited), a foreign investment enterprise established in the PRC and beneficially owned by Mr. Feng and Madam Lu

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board comprising Mr. Mui Ho Chow, Eddie and Mr. Lee Yip Wah, Peter, the two independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Ongoing Connected Transactions and the terms of the Power Supply Agreement
“Independent Shareholders”	Shareholders other than Madam Lu, Mr. Feng and their associates
“Latest Practicable Date”	18th March, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Madam Lu/Underwriter”	Madam Lu Biru, a substantial Shareholder
“Maturity Date”	the date falling on the fifth anniversary of the date of issue of the Convertible Notes
“Mighty Management”	Mighty Management Limited, a company incorporated in the British Virgin Islands with limited liability
“Mr. Feng”	Mr. Feng Ming Chang, spouse of Madam Lu
“Ongoing Connected Transactions”	means the administration and management of the Power Plant and the obtaining of supply of electricity and steam from the Power Plant by the PRC Company pursuant to the Power Supply Agreement, which give rise to the following costs to the PRC Company, namely (i) cost on the coal to be used by it; (ii) water charges; (iii) wages for 35 staff working at the Power Plant; (iv) the amortisation of the land where the Power Plant is situated; and (v) the depreciation of the cost of the building and the related ancillary facilities of the Power Plant, all of which will constitute connected transactions for the Company for the purpose of the Listing Rules after the Acquisition Completion as Hua Guang and Hua Ying are connected persons of the Company
“Placing”	the private placing by the Placing Agents of the Convertible Notes to independent investors
“Placing Agents”	Kingston Securities Limited, Get Nice Investment Ltd., Sanfull Securities Limited, Taifair Securities Limited, DL Brokerage Limited and Hui Kai Securities Limited
“Placing and Underwriting Agreement”	the placing and underwriting agreement dated 19th February, 2002 in relation to the Placing

DEFINITIONS

“Placing Conversion Shares”	the new Shares to be issued upon exercise of the conversion rights under the Convertible Notes
“Power Plant”	the power plant jointly built by the parties to the Power Supply Agreement for the generation of electricity and steam
“Power Supply Agreement”	the agreement dated 18th September, 2001 entered into amongst the PRC Company, Hua Guang, Heng Da, Hua Ying and Smart Giant and supplemented by a supplemental agreement dated 3rd January, 2002 entered into amongst the PRC Company, Hua Guang, Heng Da, Hua Ying, Smart Giant and Heng Yi in relation to the co-management and co-use of the Power Plant
“PRC”	the People’s Republic of China
“PRC Company”	南海佳順木業有限公司 (Nanhai Jia Shun Timber Company Limited), a foreign wholly-owned investment enterprise established in the PRC and wholly-owned by Can Manage
“Properties”	the properties owned and leased by the PRC Company
“Prospectus”	the prospectus dated 19th March, 2002 issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus, the provisional allotment letter and the application form for excess Rights Shares
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at the close of business on the Record Date and whose address(es) as shown on the register of members are in places of Hong Kong
“Record Date”	19th March, 2002, being the date by reference to which entitlements to the Rights Issue, as described in the Prospectus, are determined
“Rexcapital”	REXCAPITAL (Hong Kong) Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in respect of the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions
“Rights Issue”	the issue by the Company by way of rights to Qualifying Shareholders of 133,240,043 Rights Shares, subject to the terms and conditions set out in the Prospectus Documents
“Rights Shares”	the new Shares to be issued pursuant to the Rights Issue

DEFINITIONS

“Sale Loan”	the unsecured and non-interest bearing loan in the principal amount of HK\$90,347,672 outstanding and owing by Can Manage to the Vendor
“Sale Share”	1 share of US\$1.00 par value in the share capital of Can Manage, representing the entire issued share capital of Can Manage
“SDI Ordinance”	The Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Shareholders to be held at Garden Rooms, 2nd Floor, the Royal Garden, 69 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 8th April, 2002 at 10:30 a.m. (notice of which is set out on pages 109 to 112 of this circular), including any adjournment thereof
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sintex”	Sintex Investments Limited, a company incorporated in the British Virgin Islands with limited liability
“Smart Giant”	Smart Giant Investment Limited, a limited company incorporated in Hong Kong and wholly-owned by independent third parties not connected with the Company, directors, chief executive, substantial shareholders of the Company or its subsidiaries or their respective associates
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriting Agreement”	the underwriting agreement entered into on 19th February, 2002 between the Company and the Underwriter whereby the Underwriter has agreed to underwrite a maximum of 76,200,152 Rights Shares to be issued pursuant to the Rights Issue
“Vendor”	Mr. Wong Hou Ieong
“WTO”	World Trade Organisation
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	US dollars, the lawful currency of the United States of America



CHINA INVESTMENTS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Directors:

Mr. Leung Siu Fai (*Chairman and Managing Director*)

Mr. Sun Pak Fun (*Joint Chairman*)

Mr. Kam Hung Chung (*Assistant Managing Director*)

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-Executive Directors:

Mr. Mui Ho Chow, Eddie

Mr. Lee Yip Wah, Peter

*Principal place of business
in Hong Kong:*

Unit 901, Wing On Plaza

62 Mody Road

Tsimshatsui

Kowloon

Hong Kong

20th March, 2002

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION,
ONGOING CONNECTED TRANSACTIONS,
PLACING OF CONVERTIBLE NOTES
AND
INCREASE IN AUTHORISED SHARE CAPITAL**

1. INTRODUCTION

On 26th February, 2002, the Board announced that on 19th February, 2002 the Company entered into the Acquisition Agreement, the Placing and Underwriting Agreement and the Underwriting Agreement respectively. The Company has also proposed to increase its authorised share capital from HK\$100.0 million to HK\$300.0 million by the creation of additional 2,000 million new Shares. The purpose of this circular is (i) to provide further information relating to Acquisition Agreement, the Placing and Underwriting Agreement, the Power Supply Agreement, the Ongoing Connected Transactions arising immediately after the Acquisition Completion and the proposal for the Company's increase in its authorised share capital; (ii) to set out the recommendation of the Independent Board Committee as to the fairness and reasonableness of the Ongoing Connected Transactions and the terms of the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions as well as the opinion of Rexcapital thereon; and (iii) to give notice of the SGM.

LETTER FROM THE BOARD

2. THE ACQUISITION AGREEMENT

Parties

Purchaser : the Company (or through a wholly-owned subsidiary of the Company)

Vendor : Mr. Wong Hou Ieong, an independent third party not connected with the Company, the directors, chief executive, substantial shareholders of the Company or its subsidiaries or their respective associates

Assets to be acquired

Sale Share : 1 share of US\$1.00 par value in the share capital of Can Manage, representing the entire issued share capital of Can Manage

Sale Loan : the unsecured and non-interest bearing loan in the principal amount of HK\$90,347,672 outstanding and owing by Can Manage to the Vendor

Consideration

The Aggregate Consideration of HK\$270.0 million for the acquisition of the Sale Share and the Sale Loan comprises the consideration of the Sale Share of HK\$179,652,328 and the consideration of the Sale Loan of HK\$90,347,672. The Aggregate Consideration was arrived at after arm's length negotiation between the parties to the Acquisition Agreement with reference to the business valuation of Can Manage and its subsidiary of HK\$303.0 million as at 15th February, 2002 as appraised by Sallmanns (Far East) Limited, an independent valuer.

The Aggregate Consideration will be satisfied by the Company in the following manner:—

- (i) as to HK\$222.0 million payable in cash upon the Acquisition Completion; and
- (ii) as to the Balance of Consideration of HK\$48.0 million, payable either in cash or by the issue of the Consideration Note in accordance with the payment method set out in the paragraph headed "Payment of the Balance of Consideration" below.

The Company intends to fund the cash consideration of HK\$222.0 million by the issue of the Convertible Notes. Particulars of the Convertible Notes are set out in the paragraph headed "Placing of the Convertible Notes" below.

LETTER FROM THE BOARD

Profit guarantee

In the Acquisition Agreement, the Vendor has unconditionally and irrevocably warranted and undertaken to the Company that, on the basis that the principal business and the principal mode of operation of Can Manage and the PRC Company will remain materially the same during the two financial years ending 31st December, 2003 after the Acquisition Completion:—

- (a) the audited net profits after taxation of the PRC Company for the year ending 31st December, 2002 as shown in the audited accounts of the PRC Company for the financial year ending 31st December, 2002 prepared in accordance with HK GAAP shall not be less than an amount equivalent to HK\$70.0 million; and
- (b) the audited net profits after taxation of the PRC Company for the year ending 31st December, 2003 as shown in the audited accounts of the PRC Company for the financial year ending 31st December, 2003 prepared in accordance with HK GAAP shall not be less than HK\$80.0 million.

The Vendor shall pay to the Company in cash the shortfall in the net profits for the above two financial years. If the Vendor fails to pay the Company any shortfall in net profits in cash within 7 Business Days after the service of the written notice by the Company, the Company will be entitled to deduct such shortfall in net profits from the Balance of Consideration.

Payment of the Balance of Consideration

The payment of the Balance of Consideration of HK\$48.0 million shall be subject to the adjustments and deductions as provided below:—

- (a) in the event that the amount of the shareholder's fund of Can Manage as may be ascertained from the audited consolidated financial statements of Can Manage as at the Acquisition Completion Date is less than the amount equivalent to HK\$5,704,917, then an amount equal to the difference shall be deducted from the Balance of Consideration if the Vendor fails to compensate the Company for the difference in cash; and
- (b) if there shall arise any shortfall in the net profits for any of the two financial years ending 31st December, 2003, then an amount equal to such shortfall in net profits shall be deducted from the Balance of Consideration if the Vendor fails to compensate the Company for such shortfall in net profits in cash as mentioned in the paragraph headed "Profit guarantee" above.

If the Balance of Consideration shall have any amount left after the deductions (if any) as aforesaid, then the Company shall pay to the Vendor the Balance of Consideration or any remaining part by cash or by the issue of the Consideration Note within 7 Business Days after (i) the deduction of the shortfall in the net profit for the financial year ending 31st December, 2003 or (ii) the Company's receipt of the audited accounts of the PRC Company for the financial year ending 31st December, 2003 in case that there is no shortfall in the net profit for the year ending 31st December, 2003 (the "Time for Payment of the Balance of Consideration").

LETTER FROM THE BOARD

Nevertheless, the Company has agreed to issue the Consideration Note to the Vendor in settlement of the Balance of Consideration after the expiry of the six-month period immediately following the Acquisition Completion Date if the Vendor opts for the Consideration Note instead of cash for settlement of the Balance of Consideration provided that (i) the Vendor shall notify the Company of his such choice of payment method in writing 7 Business Days in advance and (ii) the Vendor shall have deposited a cash amount equal to the Balance of Consideration with the Company as the security for the performance of the Vendor's obligations under the Acquisition Agreement and such cash amount will be subject to the deductions mentioned above and will be released to the Vendor in the same manner in which the Balance of Consideration is treated as mentioned above.

Principal terms of the Consideration Note

Issuer

The Company

Subscriber

The Vendor

Principal amount

The aggregate principal amount of the Consideration Note is HK\$48.0 million.

Issue Date

The day on which the Company issues the Consideration Note after the Vendor has notified the Company in writing that he opts for the Consideration Note instead of cash for settlement of the Balance of Consideration, during the period commencing from the expiry of the 6-month period immediately following the Acquisition Completion Date until the expiry of the 7 Business Days after the Time for Payment of the Balance of Consideration and subject to the conditions set out in the paragraph headed "Payment of the Balance of Consideration" above.

Maturity Date

The date falling on the fifth anniversary of the date of issue of the Convertible Notes

Interest

The Consideration Note will bear interest from the date of issue at the rate of 1 per cent. per annum accrued on a day to day basis on the principal amount of the Consideration Note which will be payable by the Company annually in arrears on the anniversaries of the date of issue of the Consideration Note. The first interest payment of the Consideration Note will be made on the first anniversary of the date of issue of the Consideration Note.

LETTER FROM THE BOARD

Conversion

The holders of the Consideration Note will have the right to convert the whole or part of the principal amount of the Consideration Note into Consideration Conversion Shares at any time and from time to time from the date of the issue of the Consideration Note up to and including the Maturity Date in amounts of not less than HK\$1 million on each conversion, save that if at any time, the principal outstanding amount of the Consideration Note is less than HK\$1 million, the whole (but not part only) of the principal outstanding amount of the Consideration Note may be converted.

Conversion Price

The price at which each Consideration Conversion Share to be issued upon conversion shall be the conversion price applicable to the Convertible Notes prevailing at the time of the date of issue of the Consideration Note (i.e. equivalent to HK\$0.27 assuming no adjustments) for the period from the date of issue of the Consideration Note up to and including the Maturity Date (subject to adjustment). The Conversion Price was agreed after arm's length negotiations between the Company and the Vendor with reference to the closing price of HK\$0.26 per Share on the Stock Exchange on 15th February, 2002. The Conversion Price represents (i) a premium of approximately 3.85 per cent. over the closing price of HK\$0.26 per Share on the Stock Exchange on 15th February, 2002; (ii) a discount of approximately 5.10 per cent. to the average closing price of HK\$0.2845 per Share on the Stock Exchange for the 10 consecutive trading days ended on 15th February, 2002; (iii) a discount of approximately 20.59 per cent. to the closing price of HK\$0.34 per Share on the Stock Exchange on 18th February, 2002, being the last trading day of the Shares prior to the date of the Announcement; and (iv) a discount of approximately 8.47 per cent. to the closing price of HK\$0.295 on the Stock Exchange on the Latest Practicable Date.

Consideration Conversion Shares to be issued upon conversion

Consideration Conversion Shares issued upon conversion shall rank *pari passu* in all respects with all other then issued Shares outstanding as at the date on which the conversion notice is served on the Company and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date in which the conversion notice is served on the Company.

The existing issued share capital of the Company is HK\$66,620,021.90 divided into 666,200,219 Shares. Assuming full conversion of the Consideration Note at the Conversion Price, a total of 177,777,777 Consideration Conversion Shares will be issued, representing (i) approximately 26.69 per cent. of the existing issued share capital of the Company; (ii) approximately 21.06 per cent. of the issued share capital of the Company as enlarged by the issue of the aforesaid 177,777,777 Consideration Conversion Shares; (iii) approximately 10.48 per cent. of the issued share capital of the Company as enlarged by the issue of 1,029,629,628 Conversion Shares under the Consideration Note and the Convertible Notes; and (iv) approximately 9.72 per cent. of the issued share capital of the Company as enlarged by the issue of aforesaid 1,029,629,628 Conversion Shares and the issue of 133,240,043 Rights Shares under the Rights Issue, details of which are set out in the Prospectus.

LETTER FROM THE BOARD

Repayment date

The Company shall repay such principal moneys outstanding under the Consideration Note (as set out in the certificate of the Consideration Note) to the holder of the Consideration Note together with all interest accrued thereon up to and including the Maturity Date.

Voting rights of holders of the Consideration Note

The holder of the Consideration Note will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Consideration Note.

Transferability

With the prior written approval of the Company and subject to any requirements and conditions as may be imposed by the Stock Exchange, the Consideration Note may be transferred in whole or in part to any other party of its principal outstanding amount. The Company has undertaken to the Stock Exchange that it will disclose to the Stock Exchange immediately upon the Company becoming aware of any connected person who becomes a holder of the Consideration Note.

Application for listings

As set out in paragraph (d) in the paragraph headed “Conditions of the Acquisition Agreement” below, completion of the Acquisition Agreement is conditional on, amongst others, the passing by the Shareholders of an ordinary resolution approving the transactions contemplated by the Acquisition Agreement, including the possible issue of the Consideration Note and the issue of the Consideration Conversion Shares under the Consideration Note. The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Conversion Shares which may fall to be issued upon conversion of the Consideration Note. No listing of the Consideration Note will be sought on the Stock Exchange or any other stock exchanges.

Conditions of the Acquisition Agreement

The Acquisition Completion is conditional upon fulfillment of all the following conditions precedent:—

- (a) the completion of the due diligence investigations conducted by and/or on behalf of the Company to its absolute satisfaction in respect of all the matters, conditions and aspects of Can Manage and the PRC Company, including but not limited to:—
 - (i) the business, operation, financial, legal and other positions and conditions of each of Can Manage and the PRC Company; and
 - (ii) the legal, physical and other positions and conditions of the Properties as well as the plant and equipment of the PRC Company;

LETTER FROM THE BOARD

- (b) the receipt by the Company to its absolute satisfaction of a legal opinion letter issued by a firm of lawyers in the PRC appointed by the Company confirming, inter alia, that all PRC laws, rules, regulations and other relevant requirements and/or approvals in connection with the transactions contemplated by the Acquisition Agreement, the corporate structure or establishment of the PRC Company, the Properties, the Power Supply Agreement and the right and ownership of the plant and equipment of the PRC Company have been complied with or obtained;
- (c) the passing by the Shareholders of an ordinary resolution approving the increase of the authorised share capital of the Company from HK\$100 million to HK\$300 million by the creation of additional 2,000 million new Shares;
- (d) the passing by the Shareholders of an ordinary resolution approving the transactions contemplated by the Acquisition Agreement, including the sale and purchase of the Sale Share and the benefits of and interest in the Sale Loan as well as the possible issue of the Consideration Note and the issue of the Consideration Conversion Shares under the Consideration Note;
- (e) the passing by the Shareholders of an ordinary resolution approving the issue of the Convertible Notes and the issue and allotment of the Placing Conversion Shares thereunder;
- (f) if required, the Stock Exchange granting approval for the issue of the Consideration Note and the Convertible Notes, either unconditionally or subject to conditions to which neither the Vendor nor the Company reasonably objects;
- (g) the Listing Committee of the Stock Exchange granting or agreeing to the grant of the listing of and permission to deal in the Consideration Conversion Shares and the Placing Consideration Shares, either unconditionally or subject to conditions to which neither the Vendor nor the Company reasonably objects;
- (h) if required, the Bermuda Monetary Authority approving the issue of the Consideration Note and the Consideration Conversion Shares as well as the Convertible Notes and the Placing Conversion Shares; and
- (i) if the Ongoing Connected Transactions are considered by the Stock Exchange as connected transactions of the Company for the purpose of the Listing Rules, the Company's obtaining from the Stock Exchange a waiver or waivers for the Ongoing Connected Transactions from strict compliance with the requirements for announcement and shareholders' approval provided in the Listing Rules, either unconditionally or subject to conditions to which neither the Vendor nor the Company reasonably objects.

In the event that the above conditions are not fulfilled (or waived by the Company) on or before 31st May, 2002 (or such later date as the Vendor and the Company may agree in writing), the Acquisition Agreement shall become void and of no further effect. Up to the Latest Practicable Date, only condition (h) above has been fulfilled.

LETTER FROM THE BOARD

Acquisition Completion

Subject to the above conditions, completion of the sale and purchase of the Sale Share and the assignment of the benefits of and interests in the Sale Loan shall take place simultaneously on the Acquisition Completion Date.

Notwithstanding the fulfillment of the above conditions and all other provisions of the Acquisition Agreement, the Vendor and the Company agreed that the Company shall have the right, but not the obligation, to terminate the Acquisition Agreement without proceeding with the Acquisition Completion if the issue of the Convertible Notes is not duly completed or the Company does not receive the net proceeds of not less than HK\$222.0 million therefrom. In case of the Company exercising such right as aforesaid, the Acquisition Agreement shall become void and of no further effect and no party to the Acquisition Agreement shall have any claim against the other party, save in respect of any antecedent breaches of the Acquisition Agreement.

Under the Acquisition Agreement, the Vendor is not entitled to appoint any director to the Board. The board of director of Can Manage currently comprises one director. Pursuant to the Acquisition Agreement, the Company has the right to nominate a director or director(s) to replace that director upon Acquisition Completion. The Company has recruited a number of professionals who have extensive expertise in forestry and medium density fibreboard industries in the PRC to carry out a due diligence review on the business and operation of the PRC Company. The Company intends to retain these professionals on its advisory board to assist the Board on the management of the PRC Company after the Acquisition Completion.

INFORMATION ON CAN MANAGE AND THE PRC COMPANY

Can Manage is a company incorporated in the British Virgin Islands with limited liability on 16th March, 2000. As at the date of the Announcement, Can Manage has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 1 share has been issued to the Vendor.

Can Manage is an investment holding company and its principal asset is its entire equity interest in the PRC Company. Based on the accountants' report of Can Manage for the period from the date of incorporation of 16th March, 2000 to 31st December, 2000, which is set out in Appendix I to this circular, the audited consolidated losses before and after taxation were both HK\$16,500. As at 31st December, 2000, the audited consolidated net tangible deficits of Can Manage were approximately HK\$0.02 million.

Based on the accountants' report of Can Manage for the year ended 31st December, 2001, which is set out in Appendix I to this circular, the audited consolidated profits before and after taxation were both approximately HK\$5.72 million. As at 31st December, 2001, the audited consolidated net tangible assets of Can Manage were approximately HK\$5.7 million. Without taking into account the shareholder's loan of approximately HK\$90.35 million advanced by the Vendor to Can Manage (details of which are set out in notes (3i) and (3j) of the accountants' report of Can Manage on page 50 to this circular), the consolidated net assets of Can Manage as at 31st December, 2001 would be approximately HK\$96.05 million.

LETTER FROM THE BOARD

The PRC Company is a foreign wholly-owned investment enterprise established in the PRC with limited liability on 31st August, 2001 and is wholly-owned by Can Manage. The term of the PRC Company is 25 years commencing from 31st August, 2001 and expiring on 31st August, 2026. The registered capital of the PRC Company is HK\$39.8 million and has been fully contributed by Can Manage.

The scope of business of the PRC Company includes the production and sale of veneer, plywood board and medium density fibreboard. The PRC Company commenced its business in August 2001 and completed its trial production in December 2001. The manufacturing facilities of the PRC Company, mainly comprising of a production plant, warehouse and storage spaces for raw materials and the Power Plant, are located on two parcels of land owned by the PRC Company with an aggregate area of approximately 62,798 square metres in Nanhai Municipality of Guangdong Province, the PRC. To the extent of the Directors' understanding, both the two parcels of land owned by the PRC Company have a land use rights of 50 years expiring on 14th August, 2050 and there is no land premium outstanding. The production plant of the PRC Company is currently operating two production lines with an annual production capacity of 100,000 cubic metres of medium density fibreboard. The PRC Company is installing the third production line which, upon completion in the second quarter of 2002, will boost the production capacity of the PRC Company to 180,000 cubic metres of medium density fibreboard per annum. In view of the market potential of medium density fibreboard in the PRC, the PRC Company has focused its production on medium density fibreboard.

Medium density fibreboard is a type of fibreboard made from wood chips and scraps after being ground, compressed and glued and is mainly used for interior panelling and as a substitute for plywood. As there are numerous timber processing manufacturers and furniture manufacturers located around the delta region of the Pearl River in Guangdong Province of the PRC which treat wood chips and scraps as waste products, the business of the PRC Company is highly regarded and encouraged as an environmental friendly business by the local government. Due to the abundant supply of raw materials at low cost, the market demand of medium density fibreboard is promising. The PRC Company currently manufactures a comprehensive range of medium density fibreboard, including 9mm, 12mm, 15mm, and 18mm in thickness, and its products are mainly sold in the domestic market, in particular, Guangdong Province in the PRC.

REASONS FOR THE ACQUISITION

The Group is principally engaged in property development, trading and investment, steel trading, and hotel operation.

Based on the audited financial statements of the Group for the three years ended 31st December, 2000, the Group has recorded net losses of approximately HK\$91.3 million, HK\$61.9 million and HK\$14.1 million for the past three consecutive financial years. According to the unaudited interim results of the Group for the six months ended 30th June, 2001, the net loss was approximately HK\$2.3 million. In view of the historical financial performance of the Group, the Directors have been striving to restore the profitability of the Group. Since the appointment of Mr. Sun Pak Fun as the joint Chairman and the Director to the Board in October 2001 with an objective to strengthen the management team, the management of the Group has been reviewing its business strategy and actively pursuing appropriate investment opportunity which is able to bring about profits to the Group. The

LETTER FROM THE BOARD

Directors consider that the Acquisition represents a good opportunity for the Group to diversify its business to include a solid manufacturing business with good market potential. Given the facts that (i) the PRC Company has been able to make profit since its establishment in August 2001; and (ii) the Vendor has given the profit guarantee of HK\$70.0 million and HK\$80.0 million for each of the two years ending 31st December, 2003 respectively, the Directors also believe that the Acquisition provides a valuable opportunity for the Company to improve its earnings capability. The Board believes that the Acquisition is in the interest of the Company and the Shareholders as a whole. Upon Acquisition Completion, the PRC Company will become a subsidiary of the Company. All assets, liabilities, income and expenses of the PRC Company will then be accounted for in the financial statements of the Group on consolidation basis.

FINANCIAL EFFECTS OF THE ACQUISITION

Net asset value

Based on the statement of pro forma unaudited adjusted consolidated net tangible asset of the Group following the Acquisition Completion as set out in section 4 of Appendix II to this circular, which is prepared based on (i) the audited consolidated net tangible assets of the Group as at 31st December, 2000; (ii) the unaudited interim results of the Group for the six months ended 30th June, 2001; (iii) the prospectus of the Company dated 27th August, 2001 in relation to the rights issue; and (iv) the accountants' report of Can Manage, the pro forma unaudited adjusted consolidated net tangible assets of the Group following the Acquisition Completion per Share will reduce from approximately HK\$0.65 to approximately HK\$0.35.

Earnings

Assuming that the Acquisition Completion had taken place on 1st January, 2000 and based on (i) the audited consolidated net loss of the Group of approximately HK\$14.1 million for the year ended 31st December, 2000 and (ii) the consolidated net profit of approximately HK\$5.7 million of Can Manage for the year ended 31st December, 2001 as set out in the accountants' report of Can Manage reproduced in Appendix I to this circular, the pro forma net loss of the Group would be approximately HK\$8.4 million, representing an improvement of about 40.43 per cent. over the consolidated net loss of the Group of approximately HK\$14.1 million.

The terms of the Acquisition Agreement were arrived at after arm's length negotiations between the parties thereto and are on normal commercial terms. Given the reasons of the Acquisition as described above and the anticipation of the Directors that the business of Can Manage could generate an additional revenue to the Enlarged Group, the Directors consider that the Acquisition is in the interests of the Company. As the Aggregate Consideration is with reference to the business valuation of Can Manage and its subsidiary appraised by Sallmanns (Far East) Limited, an independent valuer, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable so far as the Shareholders as a whole are concerned.

LETTER FROM THE BOARD

SHAREHOLDERS' APPROVAL

The Acquisition constitutes a major transaction for the Company under the Listing Rules and is subject to the approval of the Shareholders. The Vendor does not hold any Shares as at the date of the Announcement. Madam Lu and her associates, being connected persons of the Company, shall abstain from voting at the SGM in respect of the Acquisition Agreement and the transactions contemplated thereunder, as Hua Guang and Hua Ying, being associates of Madam Lu, are parties to the Ongoing Connected Transactions, details of which are set out in the section headed "The Ongoing Connected Transactions" below.

3. THE ONGOING CONNECTED TRANSACTIONS

THE POWER SUPPLY AGREEMENT

Pursuant to the Power Supply Agreement, the PRC Company, Hua Guang, Heng Da, Hua Ying, Heng Yi and Smart Giant (the immediate shareholder of Heng Yi) agreed, inter alia, that:—

- (i) the PRC Company is to be responsible for the supply of land, the building of the Power Plant and its related ancillary facilities at its own expenses and such fixed assets belong to the PRC Company with the related depreciation being borne by the PRC Company;
- (ii) Hua Guang is to be responsible for the procurement and installation of 3 boilers of 35 tonnes each and related equipments for generating electricity at its own expenses and such fixed assets belong to Hua Guang with the related depreciation being borne by Hua Guang;
- (iii) Heng Da is to be responsible for the procurement and installation of 1 boiler of 50 tonnes at its own expenses and such fixed assets belong to Heng Da with the related depreciation being borne by Heng Da;
- (iv) Hua Ying is to be responsible for the procurement and installation of 1 electricity generator with a capacity of generating electricity of 7,000 kilowatt at its own expenses and such fixed assets belong to Hua Ying with the related depreciation being borne by Hua Ying; and
- (v) the repair and maintenance work of the Power Plant and all facilities, including the renovation of the Power Plant, and the replacement costs of the spare parts in relation to the routine maintenance of the Power Plant are borne by Heng Da, Hua Ying and Heng Yi in the ratio of 20:20:60.

The Power Plant has a capacity of generating electricity of 150 million kilowatt hour per annum. The fixed assets invested by the relevant parties pursuant to the Power Supply Agreement are to be returned to the parties concerned at the end of the tenure period. The land and building cost of the Power Plant and its related ancillary facilities are recorded as fixed assets of the PRC Company and such costs are recorded by type of assets in the books of the PRC Company. The PRC Company has been nominated to be in charge of the management and administration of the Power Plant. The Power Plant is located adjacent to the production plant of the PRC Company and is situated on a parcel of land owned by the PRC Company. The Power Plant has an establishment of 145 staff and that (i) each

LETTER FROM THE BOARD

of the PRC Company and Hua Guang is responsible to arrange 35 staff and (ii) each of Heng Da, Hua Ying and Heng Yi is responsible to arrange 25 staff, from their respective establishments for assisting in the daily operations of the Power Plant. Under the Power Supply Agreement, the 150 million kilowatt hour electricity generated by the Power Plant per annum is to be shared among the parties to the Power Supply Agreement as to 47 million kilowatt hour per annum by the PRC Company, 40 million kilowatt hour per annum by Hua Guang, and 21 million kilowatt hour per annum by each of Heng Da, Hua Ying and Heng Yi. During the electricity generation process, steam is produced. There is no limitation on the amount of steam to be consumed by the parties to the Power Supply Agreement. Prior to January 2002, water supply for the Power Plant was obtained from Nanhai Water Authority on a commercial basis and the parties to the Power Supply Agreement were charged based on the tariff rate for the actual volume of water consumed by each party. Since completion of the construction of the water pump for supplying water to the Power Plant in January 2002 by Hua Guang as one of the ancillary equipment pursuant to its responsibility under the Power Supply Agreement, water has been pumped from the river nearby to the Power Plant instead of using water supplied by Nanhai Water Authority. Under such circumstance, the parties to the Power Supply Agreement would not have to obtain water from Nanhai Water Authority for the Power Plant. If water could continuously be extracted from the river nearby, there would be a saving on water charges. However, there are circumstances that would force the parties to resort to the water supply from Nanhai Water Authority. Those circumstances include that the river water level is too low for water pumping or that the river water is having a high mud/sand content making it unsuitable for use or the overhaul of the water pump. As both the supply and the quality of water from the river nearby cannot be guaranteed, the Board anticipates that there is still a need to resort to the water supply from Nanhai Water Authority.

Pursuant to the Power Supply Agreement, the quantity of coal used by the Power Plant in generating electricity for a month is to be shared by the parties to the Power Supply Agreement according to the actual amount of electricity consumed by each of them for that month. Each party is required to replenish its share of coal used within 15 days of the following month. Any party which has not replenished its share of coal to the Power Plant within the time frame will not be guaranteed for the provision of electricity and steam supplies. Accordingly, each party to the Power Supply Agreement is responsible for its own purchases and costs on its share of coal used to generate the electricity it consumed.

IMPACT OF THE POWER SUPPLY AGREEMENT AND THE ONGOING CONNECTED TRANSACTIONS ON THE ENLARGED GROUP UPON COMPLETION

Based on the information provided by the Vendor, the responsibility of the PRC Company under the Power Supply Agreement as mentioned in item (i) in the paragraph headed “the Power Supply Agreement” above has been fulfilled. Other than the recurrent expenditures continuing to be borne by the PRC Company pursuant to the Power Supply Agreement in respect of the transactions contemplated thereunder, namely (a) cost on the coal to be used by it; (b) water charges; (c) wages for its 35 staff working at the Power Plant; (d) the amortisation of the land where the Power Plant is situated; and (e) the depreciation of the cost of the building and the related ancillary facilities of the Power Plant, the Directors were advised that the PRC Company does not have any other liabilities under the Power Supply Agreement. Based on (i) the actual expenses incurred by the PRC Company

LETTER FROM THE BOARD

on items (a) to (e) mentioned above for the past four months up to 31st December, 2001; and (ii) the maximum production capacity of production plant of the PRC Company, the Directors expect that the aggregate amount of the Ongoing Connected Transactions during a financial year will not exceed a cap amount of approximately HK\$40.0 million.

LISTING RULES IMPLICATIONS

The PRC Company and Heng Da are currently beneficially wholly-owned by the Vendor. Hua Guang and Hua Ying are beneficially owned by Mr. Feng and his spouse, Madam Lu, who is a substantial Shareholder interested in approximately 16.47 per cent. of the existing issued share capital of the Company. Heng Yi is a PRC foreign investment enterprise wholly-owned by Smart Giant. Smart Giant is owned by independent third parties not connected with the Company, the directors, chief executive, substantial shareholders of the Company or its subsidiaries or their respective associates and accordingly, Smart Giant and Heng Yi are independent third parties to the Company. Smart Giant was an original party to the Power Supply Agreement before Heng Yi was established by Smart Giant, but its rights and responsibilities under the Power Supply Agreement have been taken over by Heng Yi pursuant to a supplemental agreement dated 3rd January, 2002. The Board anticipates that, following the Acquisition Completion, the PRC Company will continue to consume the electricity and steam to be generated by the Power Plant in accordance with the terms of the Power Supply Agreement. As Hua Guang and Hua Ying are associates of Madam Lu and are, therefore, connected persons of the Company pursuant to the Listing Rules, the Ongoing Connected Transactions under the Power Supply Agreement will constitute ongoing connected transactions for the Company under the Listing Rules following the Acquisition Completion.

LISTING RULES WAIVERS

According to Chapter 14 of the Listing Rules, the Ongoing Connected Transactions are required to be disclosed by way of press announcements and circulars to the shareholders and/or prior approval of the independent shareholders in a special general meeting on each occasion the Ongoing Connected Transactions arise. As the Ongoing Connected Transactions will occur on a regular and continuing basis and will arise in the ordinary and usual course of business of the Enlarged Group after the Acquisition Completion, the Directors consider that strict compliance with the requirements under Chapter 14 of the Listing Rules would be impractical and unduly burdensome for the Company and the costs involved in complying with such requirements would not be beneficial to the Shareholders. As such, the Company has applied to the Stock Exchange for a waiver for a period of three financial years ending 31st December, 2004 from the disclosure and independent Shareholders' approval requirements in connection with the Ongoing Connected Transactions as required under the Listing Rules, subject to the following conditions:

- (a) that the Ongoing Connected Transactions shall be:
 - (i) entered into by the Company or its subsidiaries in the ordinary and usual course of their business;

LETTER FROM THE BOARD

- (ii) conducted either (a) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities in the PRC) or (b) (where there is no available comparison) on terms that are fair and reasonable so far as the Shareholders are concerned; and
 - (iii) entered into in accordance with the terms of the Power Supply Agreement;
- (b) the aggregate amount of the Ongoing Connected Transactions during a financial year of the Company shall not exceed the cap amount of HK\$40.0 million for the relevant financial year;
 - (c) the independent non-executive Directors shall review the Power Supply Agreement and the Ongoing Connected Transactions annually and confirm in the Company's annual reports for each of the financial year that the Ongoing Connected Transactions have been conducted in the manner as stated in paragraphs (a) and (b) above;
 - (d) the auditors of the Company shall review the Power Supply Agreement and the Ongoing Connected Transactions annually and confirm in a letter to the Board, a copy of which shall be provided to the Listing Division of the Stock Exchange, stating whether:
 - (i) the Ongoing Connected Transactions have received the approval of the Board;
 - (ii) the Ongoing Connected Transactions have been entered into in accordance with the terms of the Power Supply Agreement; and
 - (iii) the cap amount of the Ongoing Connected Transactions of HK\$40.0 million for any relevant financial year has not been exceeded.

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the letter referred to above, the Directors shall contact the Listing Division of the Stock Exchange immediately;

- (e) details of the Ongoing Connected Transactions in each financial year shall be disclosed as required under Chapter 14 of the Listing Rules in the annual report of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors and a confirmation from the auditors of the Company referred to in paragraphs (c) and (d) above respectively;
- (f) the Company. Hua Guang and Hua Ying, shall provide to the Stock Exchange an undertaking that, for so long as the Shares are listed on the Stock Exchange, each of them will provide the Company's auditors with full access to the relevant records of the Power Plant for the purpose of the auditors' review of the Ongoing Connected Transactions referred to in paragraph (d) above; and
- (g) if any terms of the Power Supply Agreement as mentioned above are altered or if the Company enters into any new agreements with any connected persons being parties to the Ongoing Connected Transactions in the future, the Company must comply with the provisions under Chapter 14 of the Listing Rules governing connected transactions unless it applies for and obtains a separate waiver from the Stock Exchange.

LETTER FROM THE BOARD

In the event that the Ongoing Connected Transactions continue after 31st December, 2004, separate application will be made to the Stock Exchange for waiver under the Listing Rules.

REASONS FOR THE ONGOING CONNECTED TRANSACTIONS

The production process of medium density fibreboard requires a vast amount of electricity and steam for drying and pressing. As there are a number of timber processing manufacturers in the vicinity, there is a great demand for electricity supply in the locality. Can Manage and other timber processing manufacturers had attempted separately to seek governmental approval for setting up their own power plants for generation of electricity for their respective consumption. Having regard to the fact that the establishment of a large number of individual small power plants will pollute the environment, the local government advised these manufacturers in the region, namely the PRC Company, Hua Guang, Heng Da, Hua Ying and Heng Yi, to jointly build a power plant and co-manage and co-use the power plant for the generation of electricity for their own consumption. Based on the information provided by the Vendor, the average cost of electricity per kilowatt hour for the period from September 2001 to December 2001 to the PRC Company was approximately RMB0.4634 whilst the electricity charged by 南海市電力工業局 (Nanhai Municipality Power Corporation) was in the range from RMB0.7025 to RMB0.8200 per kilowatt hour as of November 2001. Accordingly, the Board reckons that the establishment of the Power Plant can reduce the electricity cost of the PRC Company considerably.

The Directors are of the view that the Ongoing Connected Transactions and the terms of the Power Supply Agreement were determined on the basis of arm's length negotiations between the parties involved and on normal commercial terms and are fair and reasonable so far as the Independent Shareholders as a whole are concerned having regard to the circumstances in which they were entered into.

THE SHAREHOLDERS' APPROVAL

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Ongoing Connected Transactions and the terms of the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions. Rexcipital has been appointed as an independent financial adviser to advise the Independent Board Committee in this regard. The Ongoing Connected Transactions and the terms of the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions will be subject to approval by the Independent Shareholders at the SGM and Madam Lu, Mr. Feng and their associates will abstain from voting.

4. PLACING OF THE CONVERTIBLE NOTES

THE PLACING AND UNDERWRITING AGREEMENT IN RESPECT OF THE CONVERTIBLE NOTES

Date

19th February, 2002

LETTER FROM THE BOARD

Placing Agents

Kingston Securities Limited, Get Nice Investment Ltd., Sanfull Securities Limited, Taifair Securities Limited, DL Brokerage Limited and Hui Kai Securities Limited have been appointed by the Company as the placing agents. The Placing is underwritten by the Placing Agents.

Independence of the Placing Agents and placees

The Placing Agents, the placees and their respective ultimate beneficial owners are, and will be, independent of, and not connected with, the directors, chief executives, substantial shareholders of the Company or its subsidiaries, or any of their respective associates. The Placing Agents have indicated that there will not be less than 6 placees. The Board does not expect at this stage that the Placing will result in an introduction of any substantial Shareholder upon exercise of the conversion rights attached to the Convertible Notes. The Company will make further announcement in the event that there is an introduction of any substantial Shareholder as a result of the Placing upon the exercise of the conversion rights attached to the Convertible Notes.

Principal terms of the Convertible Notes

Issuer

The Company

Principal amount

The aggregate principal amount of the Convertible Notes is HK\$230.0 million due 2007 in units of HK\$1 million each.

Maturity Date

The date falling on the fifth anniversary of the date of issue of the Convertible Notes.

Interest

The Convertible Notes will bear interest from the date of issue of the Convertible Notes at the rate of 1 per cent. per annum accrued on a day to day basis on the principal amount of the Convertible Notes which will be payable by the Company annually in arrears on the anniversaries of the date of issue of the Convertible Notes. The first interest payment of the Convertible Notes will be made on the first anniversary of the date of issue of the Convertible Notes.

Conversion

The holders of the Convertible Notes will have the right to convert the whole or part of the principal amount of the Convertible Notes into Placing Conversion Shares at any time and from time to time, upon the expiry of 6 months from the date of issue of the Convertible Notes up to and

LETTER FROM THE BOARD

including the Maturity Date in amounts of not less than HK\$1 million on each conversion, save that if at any time, the principal outstanding amount of the Convertible Notes is less than HK\$1 million, the whole (but not part only) of the principal outstanding amount of the Convertible Notes may be converted.

Conversion Price

The price at which each Placing Conversion Share shall be issued upon conversion shall be HK\$0.27 for the period from the date of issue of the Convertible Notes up to and including the Maturity Date (subject to adjustment). The Conversion Price was agreed after arm's length negotiations between the Company and the Placing Agents with reference to the closing price of HK\$0.26 per Share on the Stock Exchange on 15th February, 2002. The Conversion Price represents (i) a premium of approximately 3.85 per cent. over the closing price of HK\$0.26 per Share on the Stock Exchange on 15th February, 2002; (ii) a discount of approximately 5.10 per cent. to the average closing price of HK\$0.2845 per Share on the Stock Exchange for the 10 consecutive trading days ended on 15th February, 2002; (iii) a discount of approximately 20.59 per cent. to the closing price of HK\$0.34 per Share on the Stock Exchange on 18th February, 2002, being the last trading day of the Shares prior to the date of the Announcement; and (iv) a discount of approximately 8.47 per cent. to the closing price of HK\$0.295 on the Stock Exchange on the Latest Practicable Date.

Placing Conversion Shares to be issued upon conversion

Placing Conversion Shares issued upon conversion shall rank pari passu in all respects with all other existing Shares outstanding as at the date the conversion notice is served on the Company and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date on which the conversion notice is served on the Company.

The existing issued share capital of the Company is HK\$66,620,021.90 divided into 666,200,219 Shares. Assuming that the entire principal amount of the Convertible Notes is converted at the initial conversion price of HK\$0.27 per Placing Conversion Share, a total of 851,851,851 Placing Conversion Shares will be issued, representing (i) approximately 127.87 per cent. of the existing issued share capital of the Company; (ii) approximately 56.11 per cent. of the issued share capital of the Company as enlarged by the issue of the aforesaid 851,851,851 Placing Conversion Shares; (iii) approximately 50.23 per cent. of the issued share capital of the Company as enlarged by the issue of 1,029,629,628 Conversion Shares under the Consideration Note and the Convertible Notes; and (iv) approximately 46.57 per cent. of the issued share capital of the Company as enlarged by the issue of the aforesaid 1,029,629,628 Conversion Shares and the issue of 133,240,043 Rights Shares under the Rights Issue, details of which are set out in the Prospectus.

Repayment date

The Company shall repay such principal moneys outstanding under the Convertible Notes (as set out in the certificate of the Convertible Notes) to the holders of the Convertible Notes together with all interest accrued thereon up to and including the Maturity Date.

LETTER FROM THE BOARD

Voting rights of holders of the Convertible Notes

The holders of the Convertible Notes will not be entitled to attend or vote at any meeting of the Company by reason only of them being the holders of the Convertible Notes.

Transferability

The Company has undertaken to the Stock Exchange that it will disclose to the Stock Exchange immediately upon the Company becoming aware of any connected person who becomes a holder of the Convertible Notes.

Application for listings

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Placing Conversion Shares which may fall to be issued upon conversion of the Convertible Notes. No listing of the Convertible Notes will be sought on the Stock Exchange or any other stock exchanges.

Conditions of the Placing

It shall be conditions precedent of completion that prior thereto:—

- (a) the Acquisition Agreement becoming unconditional in all material respects;
- (b) the passing at the SGM of ordinary resolutions to approve the increase in the Company's authorised share capital from HK\$100.0 million to HK\$300.0 million, the Placing and Underwriting Agreement and transactions contemplated hereunder and the issue of the Convertible Note(s) and the allotment and issue of the Placing Conversion Shares upon the exercise of the conversion rights attaching thereto;
- (c) if required, the Stock Exchange shall have approved and not withdrawn approval for the issue of the Convertible Note(s) (either unconditionally or subject only to conditions to which neither the Company nor Sanfull Securities Limited on behalf of the Placing Agents shall reasonably object and the fulfillment of such conditions);
- (d) the Listing Committee of the Stock Exchange shall have granted (either unconditionally or subject only to conditions to which neither the Company nor Sanfull Securities Limited on behalf of the Placing Agents shall reasonably object) the listing of and permission to deal in the Placing Conversion Shares; and
- (e) if required, the Bermuda Monetary Authority shall have approved the increase in the Company's authorised share capital from HK\$100.0 million to HK\$300.0 million, the issue of the Convertible Note(s) and the Placing Conversion Shares to be issued by the Company thereunder.

LETTER FROM THE BOARD

If the above conditions precedent are not fulfilled on or before 31st May, 2002 or such later date as may be agreed between the parties to the Placing and Underwriting Agreement, the Placing and Underwriting Agreement will lapse automatically and become null and void. Up to the Latest Practicable Date, only condition (e) above has been fulfilled.

The net proceeds from the issue of the Convertible Notes are expected to be approximately HK\$224.0 million and will be applied towards completion of the Acquisition Agreement and any balance left after completion of the Acquisition Agreement will be used as the working capital of the Group. In the event that the Acquisition Agreement is not completed on or before 31st May, 2002 or such later date as may be agreed by the holder of the Convertible Notes, the holders of the Convertible Notes may by 30 days' notice in writing to the Company require repayment of the whole of the principal amount outstanding on the Convertible Notes as set out in the certificate of the Convertible Notes held by the holders of the Convertible Notes together with interest accrued until the date of actual repayment.

The Placing and Underwriting Agreement will be completed on the fifth Business Day following the date on which the conditions precedent referred above are fulfilled or such later date as the Placing Agents and the Company may agree.

Termination

Notwithstanding anything contained in the Placing and Underwriting Agreement, if at any time on or prior to 4:00 p.m. on the date of the SGM:—

- (i) in the reasonable opinion of Sanfull Securities Limited on behalf of the Placing Agents there shall have been since the date of the Placing and Underwriting Agreement such a material adverse change in national or international financial, political or economic conditions as would be likely to prejudice materially the financial position of the Company and its subsidiaries (taken as a whole); or
- (ii) any material breach of any of the representations and warranties set out in the Placing and Underwriting Agreement comes to the knowledge of Sanfull Securities Limited on behalf of the Placing Agents or any event occurs or any matter arises on or after the date of the Placing and Underwriting Agreement and on or prior to the date of the SGM which if it had occurred or arisen before the date of the Placing and Underwriting Agreement would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provision of the Placing and Underwriting Agreement; or
- (iii) the suspension of trading of the Shares of the Company on the Stock Exchange for 30 consecutive days or more,

then and in any such case, Sanfull Securities Limited on behalf of the Placing Agents may after consultation with the Company (to the extent that the same is reasonably practicable) terminate the Placing and Underwriting Agreement without liability to the Company by giving notice in writing to the Company, provided that such notice is received prior to the 4:00 p.m. on the date of the SGM.

LETTER FROM THE BOARD

In the event that Sanfull Securities Limited on behalf of the Placing Agents terminates the Placing and Underwriting Agreement, all obligations of each of the parties under the Placing and Underwriting Agreement shall cease and determine and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Placing and Underwriting Agreement except for any antecedent breach of any obligation under the Placing and Underwriting Agreement.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Board considers that the terms of the Placing and Underwriting Agreement, which were arrived at after arm's length negotiations between the Company and the Placing Agents, are fair and reasonable and are in the interests of the Company.

The net proceeds from the placing of the Convertible Notes, after deduction for the total estimated expenses of approximately HK\$6.0 million, are expected to amount to approximately HK\$224.0 million and will be used to finance the Acquisition and any balance left after the Acquisition Completion will be used as the working capital of the Group.

FINANCIAL EFFECTS OF THE ISSUE OF CONVERTIBLE NOTES

The Convertible Notes will enable the Company to raise five-year fixed rate finance on an unsecured basis to fund the Acquisition. To the extent that the Convertible Notes are converted, the issue will enable the Company to raise permanent equity capital and strengthen the equity base of the Company. Upon conversion of the Convertible Notes at the then conversion price, the underlying net asset value of the Group will be improved. The Conversion Price is at a discount of approximately 58.46 per cent. to the pro forma unaudited adjusted consolidated net tangible assets of the Group immediately prior to the Acquisition, the Placing and the Rights Issue of approximately HK\$0.65 per Share (on the basis of 666,200,219 Shares in issue at the Latest Practicable Date) and a discount of approximately 22.86 per cent. to the pro forma unaudited adjusted consolidated net tangible assets of the Group immediately following the Acquisition, the Placing and the Rights Issue of approximately HK\$0.35 per Share (on the basis of 799,440,262 Shares in issue as enlarged by the issue of 133,240,043 Rights Shares prior to and including the Record Date) as set out in section 4 of Appendix II to this circular. In the event that the Convertible Notes are not converted into the Placing Conversion Shares, the issue of the Convertible Notes will result in an interest payment of HK\$2.3 million per annum up to and including the date of repayment on the Maturity Date. Accordingly, the profit of the Group will be reduced by such interest payments. Given that the Vendor has given the profit guarantee of HK\$70.0 million and HK\$80.0 million for each of the two years ending 31st December, 2003 respectively, the Board is of the view that the financial impact in respect of the interest payments pursuant to the issue of the Convertible Notes on the Group is not likely to be material.

SHAREHOLDERS' APPROVAL

The issue of the Convertible Notes and the issue of Placing Conversion Shares by the Company upon the exercise of the conversion rights attached to the Convertible Notes are subject to the approval of the Shareholders at the SGM. No Shareholders are required to abstain from voting at the SGM.

LETTER FROM THE BOARD

5. RIGHTS ISSUE

The Company has also proposed to raise approximately HK\$27.98 million, before expenses, by way of a rights issue of 133,240,043 Rights Shares at HK\$0.21 per Rights Share on the basis of one Rights Share for every five Shares held on the Record Date.

The net proceeds of the Rights Issue, after deduction of expenses, are expected to amount to approximately HK\$26.5 million and are intended to be used as working capital of the Group.

Details of the Rights Issues and the Underwriting Agreement are set out in the Prospectus.

6. INCREASE IN AUTHORISED SHARE CAPITAL

The Company has proposed that a resolution be passed at the SGM to increase its authorised share capital from HK\$100.0 million to HK\$300.0 million by the creation of additional 2,000 million new Shares to facilitate (i) the issue of 1,029,629,628 Conversion Shares under the Consideration Note and the Convertible Notes; (ii) the Rights Issue; and (iii) the future expansion of the Company.

7. SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the existing shareholding structure of the Company, the shareholding structure of the Company after the Rights Issue and the shareholding structure of the Company after the Rights Issue and assuming issue and full conversion of the Consideration Note and the Convertible Notes:

	Existing		After the Rights Issue		After the Rights Issue and assuming issue and full conversion of the Consideration Note and the Convertible Notes	
			(Note 3)			
	Shares	Per cent.	Shares	Per cent.	Shares	per cent.
Mighty Management						
(Note 1)	126,342,316	18.96	151,610,779	18.96	151,610,779	8.29
Madam Lu	109,714,285	16.47	207,857,294	26.00	207,857,294	11.36
Mr. Ng Lap Seng,						
Ms. Pun Nun Ho and						
San Kin Yip						
Holdings Company						
Limited (Note 2)	68,511,118	10.28	68,511,118	8.57	68,511,118	3.75
Sintex	49,142,857	7.38	58,971,428	7.38	58,971,428	3.22
Vendor	—	—	—	—	177,777,777	9.72
Public	312,489,643	46.91	312,489,643	39.09	1,164,341,494	63.66
Total	<u>666,200,219</u>	<u>100.00</u>	<u>799,440,262</u>	<u>100.00</u>	<u>1,829,069,890</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

1. *Mighty Management is beneficially owned by Mr. Leung Siu Fai, Chairman and Managing Director of the Company.*
2. *San Kin Yip Holdings Company Limited is beneficially equally held by Mr. Ng Lap Seng and Ms. Pun Nun Ho.*
3. *Assuming Mighty Management, Madam Lu and Sintex accept in full their respective entitlements under the Rights Issue and will not apply for any excess Rights Shares; and none of the Shareholders, other than Mighty Management, Madam Lu and Sintex, accepts their entitlements to any Rights Shares and all remaining Rights Shares are taken up by the Underwriter.*

8. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the annual report of the Company for the year ended 31st December, 2000, the Group had expanded and commenced its steel trading business so as to achieve diversification and addition of income source since mid-2000. The Group's turnover in 2000 was approximately HK\$35.6 million, representing an increase of 41.8 per cent. over that of approximately HK\$25.1 million in 1999. The net loss of the Group amounted to approximately HK\$14.1 million for the year ended 31st December, 2000 and approximately HK\$61.9 million for the year ended 31st December, 1999. However, a provision for irrecoverable investment in a property development project of approximately HK\$44.9 million had been made by the Group in 1999. Without taking into account the provision for irrecoverable investment in a property development project made in 1999, the net loss of the Group for the year ended 31st December, 1999 was approximately HK\$17.0 million.

According to the interim report of the Company for the six months ended 30th June, 2001, the turnover of the Group has greatly increased from approximately HK\$11.4 million for the six months ended 30th June, 2000 to approximately HK\$28.1 million for the six months ended 30th June, 2001. The increase in turnover was mainly attributable to the expansion and commencement of its steel trading business. The gross profit was approximately HK\$8.4 million for the six months ended 30th June, 2001 and approximately HK\$5.7 million for the six months ended 30th June, 2000. Although there was a significant increase in the turnover of the Group for the six months ended 30th June, 2001 by about 147.3 per cent. compared with that of the same period in 2000, the gross profit of the Group for the six months ended 30th June, 2001 was found to be increased by about 46.4 per cent. compared with that of the same period in 2000. It was because the profit margin of the steel trading business was relatively low despite the profit margin of the property investment and hotel operation remained steady. The total outgoings of the Group was approximately HK\$10.9 million for the six months ended 30th June, 2001 whilst that for the same period in 2000 was approximately HK\$12.4 million as a result of a cost control approach undertaken by the management. The net loss of the Group for the six months ended 30th June, 2001 was approximately HK\$2.3 million and that for the same period in 2000 was approximately HK\$6.1 million.

The Board is of the view that the Hong Kong economy has been adversely affected by the global recession and the business environment may still be unfavorable. Since the terror attacks in the United States last September, the economy of Hong Kong has been decelerated. Under the circumstances, the Group will make every endeavor to control cost and to increase revenue on the existing business. It was set out in the interim report 2001 of the Company that the Group will equip itself and make solid

LETTER FROM THE BOARD

foundation in order to identify and develop good and stable investment opportunities following the entry of the PRC into the WTO and the recovery of economy. Since the appointment of Mr. Sun Pak Fun as the joint Chairman and the Director to the Board in October 2001 with an objective to strengthen the management team, the management of the Group has been reviewing its business strategy and actively pursuing appropriate investment opportunity which is able to bring about profits to the Group. As aforesaid, on 19th February, 2002, the Company entered into the Acquisition Agreement, for the acquisition of the Sale Shares of, and the Sale Loan to, Can Manage from the Vendor for the Aggregate Consideration of HK\$270.0 million. The Directors consider that the Acquisition represents a good opportunity for the Group to diversify its business to include a solid manufacturing business with good market potential and provides a valuable opportunity for the Company to improve its earnings capabilities.

9. RECOMMENDATIONS

The Directors consider that the terms of the Acquisition Agreement are fair and reasonable so far as the Shareholders and the Company as a whole are concerned. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM.

The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Ongoing Connected Transactions and the terms of the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions is set out on pages 30 and 31 of this circular. The letter from Rexcapital containing its advice to the Independent Board Committee and the principal factors and reasons taken into account in arriving at its recommendation is set out on pages 32 to 37 of this circular.

The Directors are of the view that the Ongoing Connected Transactions and the terms of the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions were determined on the basis of arm's length negotiations between the parties involved and on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned having regard to the circumstances in which they were entered into. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM.

10. SGM

A notice convening the SGM at which ordinary resolutions will be proposed to consider, and if thought fit, to approve the increase in authorised share capital of the Company, the Acquisition Agreement and the transactions contemplated thereunder, the Ongoing Connected Transactions and the Power Supply Agreement, and the Placing and Underwriting Agreement and the transactions contemplated thereunder is set out on pages 109 to 112 of this circular. Madam Lu and her associates, currently interested in 16.47 per cent. of the existing share capital of the Company, being connected persons of the Company as Hua Guang and Hua Ying, being associates of Madam Lu, are parties to the Ongoing Connected Transactions, will abstain from voting at the SGM in respect of the Acquisition Agreement and the Ongoing Connected Transactions.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the principal place of business of the Company in Hong Kong at Unit 901, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong as soon as practicable and in any event by not later than 48 hours before the time appointed for holding such meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

11. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
Leung Siu Fai
Chairman and Managing Director



CHINA INVESTMENTS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

Unit 901, Wing On Plaza

62 Mody Road

Tsimshatsui

Kowloon

Hong Kong

20th March, 2002

To the Independent Shareholders

Dear Sir or Madam,

ONGOING CONNECTED TRANSACTIONS

We refer to the circular dated 20th March, 2002 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

The Board anticipates that the Ongoing Connected Transactions will be carried out on an ongoing and regular basis. The Ongoing Connected Transactions will be subject to approval by Independent Shareholders under Rule 14.26 of the Listing Rules.

The Company has applied to the Stock Exchange for a waiver for a period of three financial years ending 31st December, 2004 from strict compliance with the requirements for disclosure and Independent Shareholders’ approval under Chapter 14 of the Listing Rules for the Ongoing Connected Transactions, subject to the conditions as set out on pages 18 to 19 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed as the members of the Independent Board Committee to consider the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions. Rexcapital has been appointed to advise the Independent Board Committee in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 29 of this Circular and the letter from Rexcapital to the Independent Board Committee which contains its opinion in respect of the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions as set out on pages 32 to 37 of the Circular.

As members of the Independent Board Committee, we have discussed with the management of the Company regarding the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions. We have also considered the key factors taken into account by Rexcapital in arriving at its opinion regarding the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions. Having taken into account of the opinion of Rexcapital, we consider the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions to be fair and reasonable so far as the Independent Shareholders as a whole are concerned and in the interests of the Company. Accordingly, we recommend the Independent Shareholders to pass the ordinary resolution relating to the same to be proposed at the SGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Mui Ho Chow, Eddie

Lee Yip Wah, Peter

LETTER FROM REXCAPITAL (HONG KONG) LIMITED



REXCAPITAL (Hong Kong) Limited
Suite 3203 32/F,
Nine Queen's Road Central
Hong Kong

20th March 2002

The Independent Board Committee
China Investments Holdings Limited
Unit 901, Wing On Plaza
62 Mody Road, Tsimshatsui
Hong Kong

Dear Sir or Madam,

ONGOING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the financial adviser to the Independent Board Committee in respect of the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions. The detailed terms and conditions of the Ongoing Connected Transactions and the Power Supply Agreement were set forth in the "Letter from the Board" in the circular issued by the Company (the "Circular") dated 20th March, 2002, of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the Circular.

Our terms of reference as the financial adviser to the Independent Board Committee is to give our opinion to the Independent Board Committee as to whether the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned so that the Independent Board Committee may consider making its recommendation to the Independent Shareholders.

As Hua Guang and Hua Ying are associates of a substantial Shareholder, Madam Lu, and are, therefore, connected persons of the Company pursuant to the Listing Rules, the Ongoing Connected Transactions under the Power Supply Agreement will constitute ongoing connected transactions for the Company under the Listing Rules following the Acquisition Completion. The Ongoing Connected Transactions will be subject to approval by Independent Shareholders under Rule 14.26 of the Listing Rules.

In formulating our opinion on the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions, we have relied on the financial and other information supplied and represented by the Directors and have assumed that all such information and facts and any representations made to us are true, accurate and complete at the time when they were made and continue to be so as at the date hereof. We have sought and received confirmation from the Directors that all relevant information have been supplied to us and that no material facts have been omitted from the information supplied and represented and that all

information and facts supplied and represented were true and not misleading at the time they were made available to us and continue to be true and not misleading as at the date of the Circular. The Directors have jointly and severally accepted full responsibility of the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in the Circular the omission of which would make any statement in the Circular untrue, inaccurate or misleading. On this basis, we have no reason to cast any doubt on the truth, the accuracy and the completeness of all information and facts supplied or represented by the Directors.

We consider that we have obtained sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, for the purpose of giving our opinion on the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions, conducted any form of independent investigation into the business and affairs or the future prospects of the Group.

FACTORS AND REASONS CONSIDERED RELATING TO THE ONGOING CONNECTED TRANSACTIONS

In arriving at our opinion in respect of the Ongoing Connected Transactions and the terms of the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions, we have considered the principal factors and reasons set out below:

1. Reasons for the Ongoing Connected Transactions and the entering into of the Power Supply Agreement

The Group is principally engaged in property development, trading and investment, steel trading, and hotel operation. Through the Acquisition, the Group's business will be diversified into the production and sale of veneer, plywood board and medium density fibreboard.

The production process of medium density fibreboard requires a vast amount of electricity and steam for drying and pressing. As there are a number of timber processing manufacturers in the vicinity, there is a great demand for electricity supply in the locality. Can Manage and other timber processing manufacturers had attempted to seek governmental approval for setting up their own power plants for generation of electricity for their own consumption. Having regard to the fact that the establishment of a large number of individual small power plants will pollute the environment, the local government advised these manufacturers in the region, namely the PRC Company, Hua Guang, Heng Da, Hua Ying and Heng Yi, to jointly build a power plant and co-manage and co-use the power plant for the generation of electricity for their own consumption. The average cost per kilowatt hour of electricity generated by the Power Plant for the period from September 2001 to December 2001 to the PRC Company was approximately RMB0.4634 whilst the electricity charged by 南海市電力工業局 (Nanhai Municipality Power Corporation) was in the range from RMB0.7025 to RMB0.8200 per kilowatt hour as of November 2001. Accordingly, the PRC Company expected that the establishment of the Power Plant could reduce the electricity cost incurred with respect to the production of medium density fibreboard considerably.

Based on the above, we consider the reasons for the PRC Company entering into the Power Supply Agreement falls within the ordinary and usual course of business for the PRC Company and thus the Ongoing Connected Transactions are in the interests of the Company and the Independent Shareholders as a whole.

2. Terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions

The Ongoing Connected Transactions refers to the administration and management of the Power Plant and the obtaining of supply of electricity and steam from the Power Plant by the PRC Company pursuant to the Power Supply Agreement, which give rise to the following costs to the PRC Company, namely (i) cost on the coal to be used by it; (ii) water charges; (iii) wages for 35 staff working at the Power Plant; (iv) the amortisation of the land where the Power Plant situated; and (v) the depreciation of the cost of the building and the related ancillary facilities of the Power Plant (the “Related Expenses”).

The Power Plant has a capacity of generating electricity of 150 million kilowatt hour per annum. Under the Power Supply Agreement, the 150 million kilowatt hour electricity generated by the Power Plant per annum is to be shared among the parties to the Power Supply Agreement as to 47 million kilowatt hour per annum by the PRC Company, 40 million kilowatt hour per annum by Hua Guang, and 21 million kilowatt hour per annum by each of Heng Da, Hua Ying and Heng Yi. During the electricity generation process, steam is produced. There is no limitation on the amount of steam to be consumed by the parties to the Power Supply Agreement.

Pursuant to the Power Supply Agreement, the quantity of coal used by the Power Plant in generating electricity for the month is to be shared by the parties to the Power Supply Agreement according to the actual amount of electricity consumed by each of them for that month. Each party is required to replenish its share of coal used within 15 days of the following month. Any party which has not replenished its share of coal to the Power Plant within the time frame will not be guaranteed for the provision of electricity and steam supplies.

Prior to January 2002, water supply for the Power Plant was obtained from Nanhai Water Authority on a commercial basis and the parties to the Power Supply Agreement were charged based on the tariff rate for the actual volume of water consumed by each party. Since completion of the construction of the water pump for supplying water to the Power Plant in January 2002 by Hua Guang as one of the ancillary equipment pursuant to its responsibility under the Power Supply Agreement, water has been pumped from the river nearby to the Power Plant instead of using water supplied by Nanhai Water Authority. Under such circumstance, the parties to the Power Supply Agreement would not have to obtain water from Nanhai Water Authority for the Power Plant. If water could continuously be extracted from the river nearby, there would be a saving on water charges. However, there are circumstances that would force the parties to resort to the water supply from Nanhai Water Authority. Those circumstances include that the river water level is too low for water pumping or the river water is having a high mud/sand content making it unsuitable for use or the overhaul of the water pump. As both the supply and the quality of water from the river nearby cannot be guaranteed, the Board anticipates that there is still a need to resort to the water supply from Nanhai Water Authority.

LETTER FROM REXCAPITAL (HONG KONG) LIMITED

The Power Plant has an establishment of 145 staff and that (i) each of the PRC Company and Hua Guang is responsible to arrange 35 staff and (ii) each of Heng Da, Hua Ying and Heng Yi is responsible to arrange 25 staff, from their respective establishments for assisting in the daily operations of the Power Plant.

The PRC Company has been nominated to be in charge of the management and administration of the Power Plant.

The Directors were advised by the Vendor that, other than the Related Expenses, the PRC Company has fulfilled its responsibility and does not have any other liabilities under the Power Supply Agreement.

After taking into account the following considerations:

- i) reasons for the Ongoing Connected Transactions and the entering into of the Power Supply Agreement as explained in (1) above;
- ii) the relevant parties pursuant to the Power Supply Agreement will assume their respective shares of the responsibilities and costs with respect to the recurrent expenditures for the use of the Power Plant;
- iii) the Power Plant was built by the PRC Company and is located adjacent to the production plant of the PRC Company. The PRC Company would be able to manage and co-ordinate the administration of the Power Plant and its related ancillary facilities in an efficient manner;
- iv) the PRC Company owns the parcel of land on which the Power Plant was built and was responsible for the supply of the ancillary facilities at the Power Plant at its own expenses. The land and building cost of the Power Plant and its related ancillary facilities are recorded by type of assets in the books of the PRC Company. The Power Plant and its related ancillary facilities will return to the PRC Company at the end of the tenure period. Hence, we consider it reasonable for the PRC Company to bear the amortisation of the land where the Power Plant situated and the depreciation of the cost of the building and the related ancillary facilities of the Power Plant;
- v) each party to the Power Supply Agreement is to be responsible for wages of their respective arranged staff and such wages are based on actual wages for the staff employed by each party to the Power Supply Agreement; and
- vi) as confirmed with the Board, the amount of coal used and the water charges to be borne by each party to the Power Supply Agreement are determined according to the actual amount of electricity consumed by each of them and the tariff rate for the actual volume of water consumed by each of them respectively, and that the PRC Company would purchase the coal from independent third parties and water, if required, from Nanhai Water Authority on normal commercial terms and based on arm's length negotiations,

we consider the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions to be fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company.

3. Reasons for the Listing Rules Waivers

The Board is of the view that the terms of the Ongoing Connected Transactions were determined on the basis of arm's length negotiations between the parties involved and on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned having regard to the circumstances in which they were entered into. The Ongoing Connected Transactions will be subject to approval by Independent Shareholders under Rule 14.26 of the Listing Rules. As the Ongoing Connected Transactions will occur on a regular and continuing basis and will arise in the ordinary and usual course of business of the Group after the Acquisition Completion, the Directors consider that strict compliance with the requirements under Chapter 14 of the Listing Rules would be impractical and unduly burdensome for the Company and the costs involved in complying with such requirements would not be beneficial to the Shareholders.

4. Basis of determining the upper limit for the Ongoing Connected Transactions

Pursuant to the Power Supply Agreement, the PRC Company will continue to bear the Related Expenses. The Related Expenses amounted to approximately HK\$5 million for the period from September to December 2001. Based on (i) the Related Expenses incurred by the PRC Company for the past four months up to 31st December, 2001; and (ii) the maximum production capacity of production plant of the PRC Company, it is projected that the total amount of the Related Expenses will be approximately HK\$38 million for each of the three years ending 31st December, 2004. Such increase in the projected amount of the Related Expenses is in line with the projected increase of the electricity generation of the Power Plant for the three years ending 31st December, 2004. The Directors consider that the aggregate amount of the Ongoing Connected Transactions during a financial year will not exceed a cap amount of approximately HK\$40.0 million (the "Annual Cap").

We have reviewed the bases and assumptions of the projections with respect to the Related Expenses and are of the view that such projections have been prepared after due and careful enquiry. Based on such review, we consider that the aforesaid projections have been prepared and the Annual Cap has been estimated by the Board in a reasonable manner.

5. Conditions for New Waivers

For the purpose of corporate governance, the Company will comply with certain conditions as set out on pages 18 to 19 of the Circular in consideration of the Stock Exchange granting a waiver from strict compliance with the disclosure and approval requirements of Listing Rules in respect of the Ongoing Connected Transactions. In the event that the Ongoing Connected Transactions exceed the upper limit in a financial year of the Group during each of the three years ending 31st December, 2004, the Company will comply with the relevant requirements of the Listing Rules.

LETTER FROM REXCAPITAL (HONG KONG) LIMITED

OPINION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Ongoing Connected Transactions and the Power Supply Agreement so far as it is related to the Ongoing Connected Transactions are in the interests of the Company and are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote for the Ongoing Connected Transactions and the Power Supply Agreement relating to the same.

Yours faithfully,
For and on behalf of
REXCAPITAL (HONG KONG) LIMITED
Philip Chau
Director

HLM & Co.

何呂麥會計師行

3rd Floor, Rooms 303-304

Arion Commercial Centre

2-12 Queen's Road West

Hong Kong

The Directors
China Investments Holdings Limited

20th March, 2002

Dear Sirs,

We refer to the acquisition agreement entered into on 19th February, 2002 between China Investments Holdings Limited and Mr. Wong Hou Ieong. Pursuant to this agreement, China Investments Holdings Limited will acquire 100% of the equity interest in Can Manage Trading Limited (“Can Manage”), the completion of which is conditional on certain conditions as set out in the Acquisition Agreement.

We set out below our report on the financial information relating to Can Manage and its subsidiary (hereinafter collectively referred to as the “Can Manage Group”) for the period from 16th March, 2000 to 31st December, 2000 and for the year ended 31st December, 2001 (collectively the “Relevant Periods”) for inclusion in the circular of China Investments Holdings Limited dated 20th March, 2002 (the “Circular”).

Can Manage is a company incorporated in the British Virgin Islands with limited liability on 16th March, 2000.

At the date of this report, Can Manage has the following subsidiary:

Name of subsidiary	Place and date of incorporation/ registration	Registered capital	Attributable equity interest	Principal activities
			held by Can Manage	
南海佳順木業有限公司 （“南海佳順 ”）	The People’s Republic of China (the “PRC”)/ 31st August, 2001	HK\$39,800,000	100%	Manufacturing of medium density fibreboards

For the purpose of this report, we have undertaken our own independent audit of the accounts of both Can Manage and 南海佳順 for each of the periods referred to in this report, or since their respective dates of incorporation to 31st December, 2001 (where this is a shorter period), which are prepared under accounting principles generally accepted in Hong Kong, in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants, and we have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The summaries of the consolidated results of the Can Manage Group covering each of the periods referred to in this report and of the consolidated net tangible assets of the Can Manage Group as at 31st December, 2000 and 2001 (the “Summaries”) set out in this report have been prepared based on the audited financial statements of the companies comprising the Can Manage Group. The director of Can Manage is responsible for the preparation of these accounts which give a true and fair view. The directors of China Investments Holdings Limited are responsible for the contents of the circular in which this report is included. It is our responsibility to form an independent opinion on the Summaries and to report our opinion to you.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of the Can Manage Group as at 31st December, 2000 and 2001 and of the consolidated results and cash flows of the Can Manage Group for the period from 16th March, 2000 to 31st December, 2000 and for the year ended 31st December, 2001.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:—

(a) Revenue recognition

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

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

(b) Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight-line method, as follows:—

	Useful life
Medium-term land use rights	50 years
Building	10 years
Plant and equipment	10 years

(c) **Construction in progress**

Construction in progress represents plant under construction and is stated at cost. Cost comprises direct costs until the construction is completed. Costs on completed construction works are transferred to the appropriate asset category. Costs incurred on construction in progress are recognised as expenses immediately when the work is terminated. No depreciation is provided on construction in progress until it is completed and put into commercial operation.

(d) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in-first-out basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(e) **Taxation**

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

(f) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

(g) **Retirement benefits scheme**

The retirement benefit costs charged in the income statement represent the contribution payable in respect of the current year to the Can Manage Group's defined contribution scheme.

(h) **Foreign currencies**

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

On consolidation the financial statements of subsidiary which are denominated in currencies other than the Hong Kong dollar and which operates in the PRC are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

2. CONSOLIDATED RESULTS

The following is a summary of the consolidated results of the Can Manage Group for the period from 16th March, 2000 to 31st December, 2000 and the year ended 31st December, 2001:—

		Period from 16th March, 2000 to 31st December, 2000	Year ended 31st December, 2001
	Notes	2000 HK\$	2001 HK\$
Turnover	(2a)	—	24,306,412
Cost of sales		—	(15,931,828)
Gross profit		—	8,374,584
Selling and distribution expenses		—	(16,156)
Administrative expenses		(16,500)	(1,711,035)
(Loss)/Profit from operations	(2b)	(16,500)	6,647,393
Interest income		—	1,072
Finance costs	(2d)	—	(927,056)
Net (loss)/profit for the period/year		(16,500)	5,721,409

Notes:

(2a) **Turnover**

Turnover represents total sales of medium density fibreboards to customers less discounts and returns, all in the PRC.

(2b) (Loss)/Profit from operations

	Period from 16th March, 2000 to 31st December, 2000 HK\$	Year ended 31st December, 2001 HK\$
(Loss)/Profit from operations has been arrived at after charging:—		
Auditors' remuneration	—	—
Depreciation of fixed assets	—	735,511
Amortisation of land use rights	—	577,645
Operating lease rentals in respect of land and buildings	—	47,174
Staff costs		
Wages and salaries	—	1,882,711
Other staff benefits	—	37,628

(2c) Directors' remuneration and five highest paid employees

For the Relevant Periods, only one director of Can Manage Group had received remuneration, as follows:—		
	Period from 16th March, 2000 to 31st December, 2000 HK\$	Year ended 31st December, 2001 HK\$
Fees	—	—
Basic salaries and other benefits	—	11,321
Contributions to retirement benefits schemes	—	297
Total emoluments	—	11,618

The emoluments of the five highest paid employees of the Can Manage Group, including the director mentioned above, for the Relevant Periods were as follows:—

	Period from 16th March, 2000 to 31st December, 2000 HK\$	Year ended 31st December, 2001 HK\$
Fees	—	—
Basic salaries and other benefits	—	37,736
Contributions to retirement benefits schemes	—	594
Total emoluments	—	38,330

The emoluments of each of the employees did not exceed HK\$1,000,000 during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Can Manage Group to the directors of the Can Manage Group or any of the five highest paid individuals as an inducement to join or upon joining the Can Manage Group or as compensation for loss of office. No director waived any emoluments during the Relevant Periods.

(2d) Finance costs

	Period from 16th March, 2000 to 31st December, 2000 HK\$	Year ended 31st December, 2001 HK\$
Interest on other loans wholly repayable within five years which has been repaid subsequent to the balance sheet date	—	1,916,505
Less: Amount capitalised	—	(989,449)
	—	927,056

(2e) Taxation

Can Manage did not have any taxable income in the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, the Can Manage Group’s subsidiary in PRC is entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation viz, year ending 31st December 2002, and thereafter, the subsidiary will be entitled to a 50% relief from PRC enterprise income tax for the following three years.

There was no profits tax or deferred tax unprovided for during the Relevant Periods.

(2f) Dividends

No dividend has been paid or declared by Can Manage or its subsidiary since their respective dates of incorporation.

(2g) Earnings/Loss per share

No earnings/(loss) per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(2h) Related party transactions

During the Relevant Periods, the sole shareholder of Can Manage had made advances to Can Manage to finance the Can Manage Group’s operation.

	Period from 16th March, 2000 to 31st December, 2000 HK\$	Year ended 31st December, 2001 HK\$
Advances from the sole shareholder	16,492	40,147,672

Subsequent to 31st December, 2001, the sole shareholder further advanced an amount of HK\$50,200,000 to Can Manage to assist Can Manage to repay the other loan due to a third party.

(2i) Retirement benefits schemes

According to the relevant laws and regulations in the PRC, the PRC subsidiary is required to contribute a certain percentage of the payroll of their employees to the retirement benefits schemes to fund the retirement benefits of their employees. The only obligation of the Can Manage Group with respect to the retirement benefits schemes is to make the required contributions under the respective schemes. During the Relevant Periods, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future periods.

(2j) Transfer to or from reserves

There were no movements in reserves during the Relevant Periods.

(2k) Segmental information

As the Can Manage Group is engaged only in the manufacturing and sales of medium density fibreboards in the PRC, no segmental information is presented.

3. CONSOLIDATED BALANCE SHEETS

		At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
	Notes		
Non-current assets			
Property, plant and equipment	(3a)	—	63,463,549
Construction in progress	(3b)	—	13,469,525
		—	76,933,074
Current assets			
Inventories	(3c)	—	3,370,290
Trade debtors	(3d)	—	18,564,470
Prepayments, deposits and other debtors		—	4,359,815
Cash and bank balances		—	2,469,799
		—	28,764,374
Current liabilities			
Trade creditors	(3e)	—	900,635
Accruals and other creditors		—	8,744,224
		—	9,644,859
Net current assets		—	19,119,515
		—	96,052,589
Capital and reserve			
Share capital	(3g)	8	8
Accumulated (losses)/profits	(3h)	(16,500)	5,704,909
Shareholders' (deficits)/funds		(16,492)	5,704,917
Non-current liabilities			
Amount due to the sole shareholder	(3i)	16,492	40,147,672
Other loan — unsecured	(3j)	—	50,200,000
		16,492	90,347,672
		—	96,052,589

Notes:

(3a) Property, plant and equipment

As at 31st December, 2001

	Cost	Accumulated depreciation	Net book value
	HK\$	HK\$	HK\$
Power Plant			
Land use rights	12,922,269	279,992	12,642,277
Buildings	<u>8,092,254</u>	<u>110,941</u>	<u>7,981,313</u>
	<u>21,014,523</u>	<u>390,933</u>	<u>20,623,590</u>
Production facilities			
Land use rights	13,737,367	297,653	13,439,714
Buildings	6,606,357	99,096	6,507,261
Plant and equipment	<u>23,418,458</u>	<u>525,474</u>	<u>22,892,984</u>
	<u>43,762,182</u>	<u>922,223</u>	<u>42,839,959</u>
	<u>64,776,705</u>	<u>1,313,156</u>	<u>63,463,549</u>

The land and buildings are situated in the PRC with medium-term land use rights.

(3b) Construction in progress

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
Production line	<u>—</u>	<u>13,469,525</u>

Construction in progress, which represents the plant under construction, is situated in the PRC.

(3c) Inventories

The inventories are stated at cost and comprise the following:—

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
Raw materials	—	2,589,800
Work-in-progress	—	541,461
Finished goods	<u>—</u>	<u>239,029</u>
	<u>—</u>	<u>3,370,290</u>

(3d) Trade debtors

The Can Manage Group has a policy of allowing an average credit period of 90 days to its trade customers. The following is an aging analysis of trade debtors at the relevant balance sheet dates:—

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
1-90 days	<u>—</u>	<u>18,564,470</u>

(3e) Trade creditors

The following is an aging analysis of trade creditors at the relevant balance sheet dates:—

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
1-90 days	—	884,064
91-180 days	<u>—</u>	<u>16,571</u>
	<u>—</u>	<u>900,635</u>

(3f) Net assets of Can Manage

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
Non-current asset		
Investment in a subsidiary	—	39,800,000
Current assets		
Prepayments, deposits and other debtors	—	300,000
Cash and bank balances	—	27,632
	—	327,632
Less:		
Current liabilities	—	—
Net current assets	—	327,632
	—	40,127,632
Capital and reserve		
Share capital	8	8
Accumulated losses	(16,500)	(20,048)
Shareholders’ deficits	(16,492)	(20,040)
Non-current liability		
Amount due to the sole shareholder	16,492	40,147,672
	—	40,127,632

(3g) Share capital

	At 31st December, 2000	At 31st December, 2001
Authorised:		
50,000 shares of US\$1 each	US\$50,000	US\$50,000
Issued and fully paid:		
1 share of US\$1	HK\$8	HK\$8

(3h) Accumulated (losses)/profits

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
The Can Manage Group		
At beginning of the period/year	—	(16,500)
(Loss)/Profit for the period/year	<u>(16,500)</u>	<u>5,721,409</u>
At end of the period/year	<u><u>(16,500)</u></u>	<u><u>5,704,909</u></u>
Can Manage		
At beginning of the period/year	—	(16,500)
Loss for the period/year	<u>(16,500)</u>	<u>(3,548)</u>
At end of the period/year	<u><u>(16,500)</u></u>	<u><u>(20,048)</u></u>

(3i) Amounts due to the sole shareholder

The amount due to the sole shareholder are unsecured, non-interest bearing and has no fixed terms of repayment.

(3j) Other loan — unsecured

Other loan is unsecured, interest bearing at 6.44% per annum and repayable on or before 8th March, 2003. Subsequent to the balance sheet date, the sole shareholder has arranged to repay the outstanding balance in foreign currency and, accordingly, the balance has been reclassified as amount due to the sole shareholder after the balance sheet date.

(3k) Distributable reserve

As at 31st December, 2001 Can Manage had no reserve available for distribution to its shareholder.

(31) Commitments

At each of the balance sheet date during the Relevant Periods, the Can Manage Group had the following commitments:—

- i) Future minimum lease payments under non-cancellable operating lease in respect of land and buildings which fall due as follows:—

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
In one year	—	94,348
In more than one year and less than two years	—	39,311
	<u>—</u>	<u>133,659</u>

- ii) Capital commitments

	At 31st December, 2000 HK\$	At 31st December, 2001 HK\$
Capital expenditure in respect of the acquisition of plant and equipment		
(a) contracted but not provided for in the financial statements	—	712,559
(b) authorised but not contracted for	—	2,269,463
	<u>—</u>	<u>2,982,022</u>

4. CONSOLIDATED CASH FLOW STATEMENTS

		Period from 16th March, 2000 to 31st December, 2000	Year ended 31st December, 2001
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
Net cash outflow from operating activities	(4a)	<u>(16,500)</u>	<u>(8,689,167)</u>
Returns on investments and servicing of finance			
Interest paid		—	(1,916,505)
Interest received		<u>—</u>	<u>1,072</u>
Net cash outflow from return on investments and servicing of finance		<u>—</u>	<u>(1,915,433)</u>
Investing activities			
Purchase of property, plant and equipment		—	(63,787,256)
Plant under construction		<u>—</u>	<u>(13,469,525)</u>
Net cash outflow from investing activities		<u>—</u>	<u>(77,256,781)</u>
Net cash outflow before financing activities		<u>(16,500)</u>	<u>(87,861,381)</u>
Financing activities			
Share capital issued	(4b)	8	—
Advance from the sole shareholder	(4b)	16,492	40,131,180
Other loan	(4b)	<u>—</u>	<u>50,200,000</u>
Net cash inflow from financing activities		<u>16,500</u>	<u>90,331,180</u>
Cash and cash equivalents at end of the period/year		<u>—</u>	<u>2,469,799</u>
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		<u>—</u>	<u>2,469,799</u>

(4a) Reconciliation of (loss)/profit from operations to net cash outflow from operating activities

	Period from 16th March, 2000 to 31st December, 2000 <i>HK\$</i>	Year ended 31st December, 2001 <i>HK\$</i>
Operating (loss)/profit	(16,500)	5,721,409
Depreciation	—	735,511
Amortisation of land use rights	—	577,645
Interest expenses	—	927,056
Interest income	—	(1,072)
Increase in inventories	—	(3,370,290)
Increase in trade and other debtors	—	(22,924,285)
Increase in trade and other creditors	—	9,644,859
Net cash outflow from operating activities	(16,500)	(8,689,167)

(4b) Analysis of changes in financing during the Relevant Periods

	Share capital <i>HK\$</i>	Amount due to the sole shareholder <i>HK\$</i>	Other loan <i>HK\$</i>	Total <i>HK\$</i>
Net cash inflow from financing activities	8	16,492	—	16,500
At 31st December, 2000	8	16,492	—	16,500
Net cash inflow from financing activities	—	40,131,180	50,200,000	90,331,180
At 31st December, 2001	8	40,147,672	50,200,000	90,347,680

5. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Can Manage, or any of the companies now comprising the Can Manage Group, in respect of any period subsequent to 31st December, 2001.

Yours faithfully,
HLM & Co.
Certified Public Accountants
Hong Kong

1. FINANCIAL STATEMENTS

(a) SUMMARY OF AUDITED CONSOLIDATED RESULTS OF THE GROUP FOR THE THREE YEARS ENDED 31ST DECEMBER, 2000

The following is a summary of the audited consolidated results of the Group for each of the three years ended 31st December, 2000 extracted from the audited consolidated financial statements of the Company:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Turnover	35,609	25,114	36,941
Cost of sales	<u>(20,426)</u>	<u>(14,061)</u>	<u>(23,308)</u>
Gross profit	15,183	11,053	13,633
Other revenue	2,264	3,697	1,418
Selling and distribution costs	(846)	(984)	(647)
Administrative expenses	(14,701)	(14,655)	(15,385)
Provision for irrecoverable investment in property development project	—	(44,865)	—
Revaluation deficit on investment properties	(4,805)	(3,300)	(25,100)
Other operating expenses	(6,666)	(8,129)	(8,235)
Provision for loss on properties held for sale	—	—	(35,509)
Loss on disposal of investment properties	<u>—</u>	<u>—</u>	<u>(4,000)</u>
Loss from operations	(9,571)	(57,183)	(73,825)
Loss on disposal of subsidiaries	—	—	(9,175)
Finance costs	(4,557)	(4,738)	(6,264)
Investment income (expense)	—	—	(2,050)
Share of results of an associate	<u>—</u>	<u>—</u>	<u>(1)</u>
Loss for the year	<u>(14,128)</u>	<u>(61,921)</u>	<u>(91,315)</u>
Loss per share (Basic)	<u>(2.6 cents)</u>	<u>(12.7 cents)</u>	<u>(19.1 cents)</u>

(b) AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31ST DECEMBER, 2000

The following information is extracted from the audited consolidated financial statements of the Company as contained in the annual report of the Company for the year ended 31st December, 2000:

Consolidated Income Statement

For the Year Ended 31st December, 2000

	NOTES	2000 HK\$'000	1999 HK\$'000
Turnover	3	35,609	25,114
Cost of sales and services		<u>(20,426)</u>	<u>(14,061)</u>
Gross profit		15,183	11,053
Other revenue	4	2,264	3,697
Selling and distribution costs		(846)	(984)
Administrative expenses		(14,701)	(14,655)
Revaluation deficit on investment properties		(4,805)	(3,300)
Other operating expenses		(6,666)	(8,129)
Provision for irrecoverable investment in a property development project	5	<u>—</u>	<u>(44,865)</u>
Loss from operations	6	(9,571)	(57,183)
Finance costs	7	<u>(4,557)</u>	<u>(4,738)</u>
Net loss for the year	11	<u>(14,128)</u>	<u>(61,921)</u>
Loss per share	12	<u>(2.6 cents)</u>	<u>(12.7 cents)</u>

APPENDIX II FINANCIAL INFORMATION ON THE GROUP

Consolidated Balance Sheet

As at 31st December, 2000

	NOTES	2000 HK\$'000	1999 HK\$'000
Non-current Assets			
Investment properties	13	89,500	48,300
Property, plant and equipment	14	160,236	161,235
Properties held for development	15	80,000	80,000
Investments in securities	17	1	1
Club debenture		<u>205</u>	<u>205</u>
		<u>329,942</u>	<u>289,741</u>
Current Assets			
Properties held for sale		96,660	142,665
Inventories	18	1,468	1,622
Trade and other receivables	19	6,153	3,814
Investments in securities	17	110	277
Pledged bank deposits	27	10,000	10,463
Bank balances and cash		<u>24,070</u>	<u>16,021</u>
		<u>138,461</u>	<u>174,862</u>
Current Liabilities			
Trade and other payables	20	12,613	12,041
Bills payable		1,758	—
Tax payable		2,546	2,546
Bank borrowings - due within one year	21	<u>6,688</u>	<u>6,500</u>
		<u>23,605</u>	<u>21,087</u>
Net Current Assets		<u>114,856</u>	<u>153,775</u>
		<u>444,798</u>	<u>443,516</u>
Capital and Reserves			
Share capital	22	58,293	48,693
Reserves	24	<u>350,755</u>	<u>352,573</u>
		409,048	401,266
Non-current Liability			
Bank borrowings - due after one year	21	<u>35,750</u>	<u>42,250</u>
		<u>444,798</u>	<u>443,516</u>

Consolidated Statement of Recognised Gains and Losses

For the Year Ended 31st December, 2000

	2000	1999
	HK\$'000	HK\$'000
Revaluation (deficit) surplus on hotel properties	(2,000)	2,000
Exchange differences arising on translation of financial statements of overseas operations	<u>(90)</u>	<u>—</u>
Net (losses) gains not recognised in the consolidated income statement	(2,090)	2,000
Net loss for the year	<u>(14,128)</u>	<u>(61,921)</u>
Total recognised losses	<u>(16,218)</u>	<u>(59,921)</u>

APPENDIX II FINANCIAL INFORMATION ON THE GROUP

Consolidated Cash Flow Statement

For the Year Ended 31st December, 2000

	2000 HK\$'000	1999 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES <i>(note a)</i>	<u>(3,680)</u>	<u>(3,853)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid	(4,557)	(4,824)
Interest received	<u>1,357</u>	<u>1,539</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<u>(3,200)</u>	<u>(3,285)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,280)	(1,019)
Purchase of investments in securities	(129)	—
Decrease (increase) in pledged bank deposits	463	(2,903)
Proceeds from disposal of investments in securities	128	—
Proceeds from disposal of property, plant and equipment	<u>18</u>	<u>—</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(2,800)</u>	<u>(3,922)</u>
NET CASH OUTFLOW BEFORE FINANCING	<u>(9,680)</u>	<u>(11,060)</u>
FINANCING <i>(note b)</i>		
Issue of new shares	24,000	—
Repayment of secured bank loans	<u>(6,500)</u>	<u>(6,500)</u>
NET CASH INFLOW (OUTFLOW) FROM FINANCING	<u>17,500</u>	<u>(6,500)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,820	(17,560)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	16,021	33,586
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>41</u>	<u>(5)</u>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	<u><u>23,882</u></u>	<u><u>16,021</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	24,070	16,021
Bank overdraft	<u>(188)</u>	<u>—</u>
	<u><u>23,882</u></u>	<u><u>16,021</u></u>

Notes:

(a) Reconciliation of net loss for the year to net cash outflow from operating activities:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net loss for the year	(14,218)	(61,921)
Depreciation	2,232	2,583
Interest income	(1,357)	(1,565)
Interest expenses	4,557	4,738
Revaluation deficit on investment properties	4,805	3,300
Provision for irrecoverable investment in a property development project	—	44,865
(Gain) loss on disposal of property, plant and equipment	(12)	23
Loss on disposal of other investments	112	—
Unrealised holding losses on other investments	56	101
Decrease in properties held for sale	—	3,281
Decrease in inventories	154	374
(Increase) decrease in trade and other receivables	(2,339)	832
Increase (decrease) in trade and other payables	572	(464)
Increase in bills payable	<u>1,758</u>	<u>—</u>
Net cash outflow from operating activities	<u>(3,680)</u>	<u>(3,853)</u>

(b) Analysis of changes in financing during the year:

	Secured bank loans <i>HK\$'000</i>	Share capital and share premium <i>HK\$'000</i>
Balance at 1st January, 1999	55,250	408,992
Repayment during the year	<u>(6,500)</u>	<u>—</u>
Balance at 31st December, 1999	48,750	408,992
Repayment during the year	(6,500)	—
Issue of new shares	<u>—</u>	<u>24,000</u>
Balance at 31st December, 2000	<u>42,250</u>	<u>432,992</u>

Notes to the Financial Statements*For the Year Ended 31st December, 2000***1. GENERAL**

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are property development and trading, steel trading, hotel operation and property investment and investment holding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

All significant intercompany transactions and balances have been eliminated on consolidation.

Goodwill

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

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

Subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Investment properties

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

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

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

(i) *Hotel properties*

Hotel properties are stated in the balance sheet at their open market value on the basis of an annual professional valuation at the balance sheet date. Any revaluation increase arising on the revaluation of hotel properties is credited to the hotel property revaluation reserve except to the extent that it reverses a revaluation decrease of the same hotel property previously recognised as an expense, in which case this increase is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of a hotel property is charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that hotel property. On the subsequent sale or retirement of a revalued hotel property, the balance on the hotel property revaluation reserve attributable to that property is credited to the accumulated profits.

No depreciation is provided on hotel properties except where the unexpired term of the relevant lease is 20 years or less. It is the Group’s practice to maintain the buildings in a continual state of sound repairs and to make improvements thereto from time to time and accordingly, the Directors consider that depreciation is not necessary due to their high residual value.

(ii) *Other property, plant and equipment*

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

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

Land and buildings in Hong Kong under medium-term leases	Over the lease term
Land and buildings outside Hong Kong under medium-term leases	2.5% to 4.5% or over the lease term, if shorter
Furniture, equipment and leasehold improvements	10% to 20%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

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

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

Properties held for development

Properties held for development are stated at cost less any impairment loss. The cost of properties held for development includes land costs, construction costs, interest capitalised and other incidental costs. Depreciation of these properties, on the same basis as other property, plant and equipment, commences when the assets are put into use.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises land cost, construction cost, interest capitalised and other direct costs that have been incurred in bringing these properties to their present location and condition.

Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to be incurred in marketing and selling.

Borrowing costs

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

All other borrowing costs are recognised as an expense in period which they are incurred.

Revenue recognition

(i) *Sales of properties*

Income is recognised only when legal title to the property is transferred to the purchaser and the sale and purchase transaction is completed. Amounts received prior to completion of the transactions are included under current liabilities as deposits received on sale of properties.

(ii) *Sales of goods*

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

(iii) *Hotel operations*

Revenue arising from hotel operations is recognised when the relevant services are provided.

(iv) *Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(v) *Interest income*

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

Investments in securities

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

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

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

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

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes direct materials, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition and is calculated using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less all estimated costs of completion and estimated selling expenses.

Foreign currencies

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

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Operating leases

Rentals expenses under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Taxation

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

Retirement benefits scheme

The pension costs charged to the income statement represent the amount of contributions payable in respect of the current year to the Group’s defined contribution scheme.

Cash equivalents

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

3. TURNOVER

The Group’s turnover and contribution to operating loss by principal activities and geographical segments are as follows:

	Turnover		Contribution to (loss) profit for the year	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Hotel operations	21,466	18,075	2,454	(466)
Steel trading	10,095	—	912	—
Property investment	4,048	3,782	(1,683)	(3,778)
Sale of properties	<u>—</u>	<u>3,257</u>	<u>—</u>	<u>(34)</u>
	<u>35,609</u>	<u>25,114</u>	1,683	(4,278)
Finance costs			(4,557)	(4,738)
Unallocated corporate expenses			(11,254)	(8,040)
Provision for irrecoverable investment in a property development project			<u>—</u>	<u>(44,865)</u>
Net loss for the year			<u>(14,128)</u>	<u>(61,921)</u>
By geographical segment:				
The People’s Republic of China, other than Hong Kong (“PRC”)				
	21,503	21,371	2,977	(483)
Hong Kong	<u>14,106</u>	<u>3,743</u>	<u>(1,294)</u>	<u>(3,795)</u>
	<u>35,609</u>	<u>25,114</u>	1,683	(4,278)
Finance costs			(4,557)	(4,738)
Unallocated corporate expenses			(11,254)	(8,040)
Provision for irrecoverable investment in a property development project			<u>—</u>	<u>(44,865)</u>
Net loss for the year			<u>(14,128)</u>	<u>(61,921)</u>

4. OTHER REVENUE

Other revenue included the following items:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest income	1,357	1,565
Net unrealised holding losses on other investments	<u>(56)</u>	<u>(101)</u>
	<u><u>1,301</u></u>	<u><u>1,464</u></u>

5. PROVISION FOR IRRECOVERABLE INVESTMENT IN A PROPERTY DEVELOPMENT PROJECT

In 1993 and 1994, a subsidiary of the Company made an investment totalling US\$5,800,000 (the “Investment”) into a joint property development project in Shanghai, the PRC with a third party in the PRC (the “PRC Party”). Following negotiations with the PRC Party in 1997, the subsidiary discontinued its investment in the property development project in 1998 and the PRC Party agreed to refund the Investment by 31st December, 1998. However, the PRC Party failed to repay the Investment to the Group. In that connection, the Company has retained PRC legal advisers since December 1999 and is considering taking legal action against the PRC Party. The Board of Directors had made full provision for the Investment in 1999 and the Company will continue to use its best efforts to recover the Investment.

6. LOSS FROM OPERATIONS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Auditors' remuneration	800	800
Depreciation	2,232	2,583
Operating lease charges in respect of land and buildings	1,915	2,158
Staff costs (including directors' remuneration)	7,727	10,812
and after crediting:		
Gross rental income from properties	4,048	3,782
Less: outgoings	<u>(1,368)</u>	<u>(1,089)</u>
	<u><u>2,680</u></u>	<u><u>2,693</u></u>

7. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on bank borrowings not wholly repayable within five years	4,507	4,738
Interest on bank borrowings wholly repayable within five years	<u>50</u>	<u>—</u>
Total borrowing costs	<u><u>4,557</u></u>	<u><u>4,738</u></u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

The aggregate emoluments of the Directors of the Company are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive Directors	—	—
Independent Non-Executive Directors	<u>200</u>	<u>200</u>
	<u>200</u>	<u>200</u>
Other emoluments (Executive Directors):		
Salaries and other benefits	2,653	3,362
Retirement benefit scheme contributions	<u>87</u>	<u>113</u>
	<u>2,740</u>	<u>3,475</u>
	<u><u>2,940</u></u>	<u><u>3,675</u></u>

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2000	1999
Nil - HK\$1,000,000	3	2
HK\$1,000,001 - HK\$1,500,000	<u>2</u>	<u>3</u>

No Directors waived any emoluments in the year ended 31st December, 2000.

b. Employees’ emoluments

During the year, the five highest paid individuals included three Directors (1999: three Directors), details of whose emoluments are set out above. The emoluments of the remaining two individuals (1999: two individuals) were as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	1,059	1,057
Retirement benefit scheme contributions	<u>48</u>	<u>48</u>
	<u>1,107</u>	<u>1,105</u>

The aggregate emolument of each of these two (1999: two) highest paid individual is less than HK\$1,000,000.

9. STAFF RETIREMENT SCHEME

The Group contributes to a defined contribution retirement scheme which is available to Hong Kong permanent employees. This retirement scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement scheme for each year are based on a percentage of the eligible employees’ salaries and are charged to the income statement as incurred. The total contribution to the scheme amounted to HK\$173,000 (1999: HK\$204,000) for the year and has been charged to the income statement. Forfeited employer contributions in respect of former employees who prematurely withdraw from the staff retirement scheme may be used by the Group to reduce its ongoing employer contributions. The forfeited contributions utilised amounted to HK\$85,000 (1999: nil) for the year. At the balance sheet date, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.

In light of the introduction of the Mandatory Provident Fund (“MPF”) Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bank of Consortium effective 1st December, 2000 to provide MPF Scheme to all employees.

The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited at 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

10. TAXATION

No provision of Hong Kong Profits Tax or overseas taxation has been made in the financial statements as the Company and its subsidiaries have no assessable profits for the year.

At the balance sheet date, the major components of the unrecognised net deferred tax assets are as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses	13,379	13,610	4,334	4,334
Excess of tax allowances over accounting depreciation in respect of property, plant and equipment	<u>(50)</u>	<u>(28)</u>	<u>—</u>	<u>—</u>
	<u>13,329</u>	<u>13,582</u>	<u>4,334</u>	<u>4,334</u>

No deferred tax asset has been recognised in the financial statements as it is not certain that the tax benefit will be utilised in the foreseeable future.

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

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses utilised (arising)	231	(2,269)	—	(888)
Difference between tax allowances and accounting depreciation in respect of property, plant and equipment	<u>22</u>	<u>(61)</u>	<u>—</u>	<u>—</u>
	<u>253</u>	<u>(2,330)</u>	<u>—</u>	<u>(888)</u>

The revaluation deficit arising on the revaluation of properties in Hong Kong does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation deficit relating to properties in Hong Kong.

11. NET LOSS FOR THE YEAR

Of the Group’s net loss for the year, a loss of HK\$344,248,000 (1999: HK\$20,667,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK\$14,128,000 (1999: HK\$61,921,000) and on the weighted average number of 543,210,124 ordinary shares (1999: 486,925,192 ordinary shares) in issue during the year.

13. INVESTMENT PROPERTIES

	In the PRC held on medium-term leases HK\$'000	In Hong Kong held on medium-term leases HK\$'000	Total HK\$'000
THE GROUP			
Valuation			
As at 1st January, 1999	—	51,600	51,600
Deficit on revaluation	—	(3,300)	(3,300)
As at 31st December, 1999	—	48,300	48,300
Reclassified from properties held for sale	1,005	45,000	46,005
Deficit on revaluation	(105)	(4,700)	(4,805)
As at 31st December, 2000	900	88,600	89,500

Investment properties were revalued at their open market value at 31st December, 2000 by Associated Surveyors & Auctioneers, an independent firm of professional valuers, on an open market existing use basis. This valuation gave rise to a revaluation decrease of HK\$4,805,000 (1999: HK\$3,300,000), which has been charged to the consolidated income statement.

All of the Group’s investment properties are rented out under operating leases.

14. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties in the PRC under medium-term leases <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Furniture, equipment and leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST OR VALUATION						
At 1st January, 2000	152,000	2,662	22,384	11,234	2,476	190,756
Exchange adjustments	—	(22)	(176)	(97)	(7)	(302)
Additions	—	2,597	360	64	259	3,280
Disposals and write off	—	—	(1,032)	(42)	(292)	(1,366)
Deficit on revaluation	<u>(2,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,000)</u>
At 31st December, 2000	<u>150,000</u>	<u>5,237</u>	<u>21,536</u>	<u>11,159</u>	<u>2,436</u>	<u>190,368</u>
Comprising:						
At cost	—	5,237	21,536	11,159	2,436	40,368
At valuation-2000	<u>150,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>150,000</u>
	<u>150,000</u>	<u>5,237</u>	<u>21,536</u>	<u>11,159</u>	<u>2,436</u>	<u>190,368</u>
DEPRECIATION						
At 1st January, 2000	—	1,554	16,968	8,671	2,328	29,521
Exchange adjustments	—	(12)	(166)	(77)	(6)	(261)
Provided for the year	—	145	846	1,137	104	2,232
Eliminated on disposals and write off	<u>—</u>	<u>—</u>	<u>(1,032)</u>	<u>(36)</u>	<u>(292)</u>	<u>(1,360)</u>
At 31st December, 2000	<u>—</u>	<u>1,687</u>	<u>16,616</u>	<u>9,695</u>	<u>2,134</u>	<u>30,132</u>
NET BOOK VALUES						
At 31st December, 2000	<u>150,000</u>	<u>3,550</u>	<u>4,920</u>	<u>1,464</u>	<u>302</u>	<u>160,236</u>
At 31st December, 1999	<u>152,000</u>	<u>1,108</u>	<u>5,416</u>	<u>2,563</u>	<u>148</u>	<u>161,235</u>

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31st December, 2000 by Associated Surveyors & Auctioneers, an independent firm of professional valuers. The differences arising on revaluation have been reflected in the hotel properties revaluation reserve.

The net book value of land and buildings shown above comprises:

	2000	1999
	HK\$'000	HK\$'000
In Hong Kong held under medium-term leases	2,570	—
In the PRC held under medium-term leases	<u>980</u>	<u>1,108</u>
	<u>3,550</u>	<u>1,108</u>

15. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP
	In the PRC held
	under long leases
	HK\$'000
COST	
At 1st January, 2000 and at 31st December, 2000	<u>80,000</u>

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY
	2000
	1999
	HK\$'000
	HK\$'000
Unlisted investments, at cost	1,096,607
Less: Provision for impairment loss	<u>(1,090,000)</u>
	<u>6,607</u>

Particulars of the Company’s principal subsidiaries as at 31st December, 2000 are set out in note 28.

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

17. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed shares in Hong Kong	—	—	110	277	110	277
Overseas debt securities	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>	<u>110</u>	<u>277</u>	<u>111</u>	<u>278</u>
Market value of listed shares	<u>—</u>	<u>—</u>	<u>110</u>	<u>277</u>	<u>110</u>	<u>277</u>
Carrying amount analysed for reporting purposes as:						
Current	—	—	110	277	110	277
Non-current	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>	<u>110</u>	<u>277</u>	<u>111</u>	<u>278</u>

18. INVENTORIES

THE GROUP

Inventories comprise food, beverages and hotel supplies and are stated at cost.

19. TRADE AND OTHER RECEIVABLES

THE GROUP

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	2000	1999
	HK\$'000	HK\$'000
0 - 60 days	2,666	620
61 - 90 days	343	582
91 - 120 days	735	445
>120 days	<u>518</u>	<u>637</u>
Trade receivables	4,262	2,284
Other receivables	<u>1,891</u>	<u>1,530</u>
	<u>6,153</u>	<u>3,814</u>

20. TRADE AND OTHER PAYABLES

THE GROUP

The following is an aged analysis of the Group’s trade payables at the balance sheet date:

	2000 HK\$'000	1999 HK\$'000
0 - 60 days	3,291	990
61 - 90 days	570	120
91 - 120 days	322	413
>120 days	<u>380</u>	<u>476</u>
Trade payables	4,563	1,999
Other payables	<u>8,050</u>	<u>10,042</u>
	<u>12,613</u>	<u>12,041</u>

21. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Secured bank loans	42,250	48,750	42,250	48,750
Unsecured bank overdraft	<u>188</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>42,438</u>	<u>48,750</u>	<u>42,250</u>	<u>48,750</u>

The maturity of the bank borrowings is as follows:

Within one year or on demand	6,688	6,500	6,500	6,500
More than one year but not exceeding two years	6,500	6,500	6,500	6,500
More than two years but not exceeding five years	19,500	19,500	19,500	19,500
More than five years	<u>9,750</u>	<u>16,250</u>	<u>9,750</u>	<u>16,250</u>
	42,438	48,750	42,250	48,750
Less: Amount due within one year shown under current liabilities	<u>(6,688)</u>	<u>(6,500)</u>	<u>(6,500)</u>	<u>(6,500)</u>
Amount due after one year	<u>35,750</u>	<u>42,250</u>	<u>35,750</u>	<u>42,250</u>

22. SHARE CAPITAL

	Number of shares		Nominal value	
	2000	1999	2000	1999
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the year	600,000,000	600,000,000	60,000	60,000
Increase during the year	400,000,000	—	40,000	—
At end of the year	1,000,000,000	600,000,000	100,000	60,000
Issued and fully paid:				
At beginning of the year	486,925,192	486,925,192	48,693	48,693
Issue of new shares	96,000,000	—	9,600	—
At end of the year	582,925,192	486,925,192	58,293	48,693

Pursuant to the special resolution passed on 28th June, 2000 in the special general meeting, the authorised share capital of the Company was increased from HK\$60,000,000 to HK\$100,000,000 by the creation of additional 400,000,000 new ordinary shares of HK\$0.10 each.

On 31st May, 2000, 96,000,000 ordinary shares of HK\$0.10 each were issued to an independent private investor, Madam Lu, at a price of HK\$0.25 per share. The gross proceeds of HK\$24,000,000 was used for the working capital of the Group. These new shares ranked pari passu with the then existing shares in all respects.

23. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 28th June, 1994, a Share Option Scheme for the benefit of the employees was approved whereby the Board of Directors of the Company may offer to any director or full time employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price of which will be determined by the Board of Directors and notified to each grantee and will not be less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

There were no options outstanding at beginning and end of the year. There were no options granted to or exercised by any Directors or employees of the Company and its subsidiaries during the year.

24. RESERVES

	Share premium <i>HK\$'000</i>	Hotel property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
At 1st January, 1999	360,299	41,695	(56,848)	67,348	412,494
Surplus on revaluation of hotel properties	—	2,000	—	—	2,000
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(61,921)</u>	<u>(61,921)</u>
At 31st December, 1999	360,299	43,695	(56,848)	5,427	352,573
Exchange adjustments	—	—	(90)	—	(90)
Share premium arising from issue of shares	14,400	—	—	—	14,400
Deficit on revaluation of hotel properties	—	(2,000)	—	—	(2,000)
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,128)</u>	<u>(14,128)</u>
At 31st December, 2000	<u>374,699</u>	<u>41,695</u>	<u>(56,938)</u>	<u>(8,701)</u>	<u>350,755</u>
THE COMPANY					
At 1st January, 1999	360,299	—	—	(39,265)	321,034
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(20,667)</u>	<u>(20,667)</u>
At 31st December, 1999	360,299	—	—	(59,932)	300,367
Share premium arising from issue of shares	14,400	—	—	—	14,400
Net loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(344,248)</u>	<u>(344,248)</u>
At 31st December, 2000	<u>374,699</u>	<u>—</u>	<u>—</u>	<u>(404,180)</u>	<u>(29,481)</u>

The Company had no reserve available for distribution to the shareholders as at 31st December, 1999 and 2000.

25. LEASE COMMITMENTS

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

	THE GROUP	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Operating lease which expire:		
— Within one year	1,161	49
— In the second to fifth years inclusive	<u>—</u>	<u>2,205</u>
	<u>1,161</u>	<u>2,254</u>

The Company has no lease commitments as at 31st December, 2000 and 1999.

26. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	4,042	850

The Company has no capital commitments outstanding as at 31st December, 2000 and 1999.

27. PLEDGE OF ASSETS

At 31st December, 2000, the Group’s investment properties and bank deposits and all accrued interest thereon amounting to HK\$88,600,000 (1999: nil) and HK\$10,000,000 (1999: HK\$10,463,000), respectively were pledged to secure general banking facilities.

At 31st December, 1999, the Group’s properties held for sale amounting to HK\$45,000,000 were pledged to banks to secure general banking facilities granted to the Group. None of the properties held for sale were pledged at 31st December, 2000.

28. PRINCIPAL SUBSIDIARIES

Particulars of the Company’s principal subsidiaries at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held	Principal activity
<i>Direct subsidiary</i>				
China Investments Limited	Hong Kong	HK\$1,000	100	Investment holding
<i>Indirect subsidiaries</i>				
Aeceus Assets Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Airlane Development Limited	Hong Kong	HK\$2	100	Property trading
Barmax Development Limited	Hong Kong	HK\$2	100	Property trading
Bedlow Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Botex Development Limited	Hong Kong	HK\$2	100	Property trading
Boyle Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and fully paid ordinary share capital/registered capital	Percentage held	Principal activity
Canetti Assets Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Centon Development Limited	Hong Kong	HK\$2	100	Property trading
Charland Investment Limited	Hong Kong	HK\$2	100	Property trading
China Alliance Industries Limited	Hong Kong	HK\$2	100	Property trading
Chinese Dragon Company Limited	Hong Kong	HK\$10,000	100	Provision of management services
Cyro Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Dragon Hope Limited	Hong Kong	HK\$9,000	100	Investment holding
Expert Target Development Limited	Hong Kong	HK\$2	100	Property trading
Fairwind International Limited	Hong Kong	HK\$2	100	Property development
Gatsby Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Greenswood Property Limited	Hong Kong	HK\$2	100	Property investment
Guilin Li-Feng Real Estate Company Ltd.	PRC	RMB8,459,827	100	Property development
Guilin Sight-Seeing Hotel Company Limited	PRC	RMB14,500,000	100	Hotel operations
Jofra Company Limited	Hong Kong	HK\$1,000	100	Investment holding
Kardon Investment Limited	Hong Kong	HK\$2	100	Property trading
Kawan (HK) Trading Company Limited	Hong Kong	HK\$4,000,000	100	Trading of steels and other materials
Kingsgrand Developments Limited	Hong Kong	HK\$10,000	100	Investment holding
Langmax Investment Limited	Hong Kong	HK\$2	100	Property trading
Lina Development Limited	Hong Kong	HK\$2	100	Property trading
Metropolitan Development Limited	Hong Kong	HK\$2	100	Property trading
Newhart Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Rich Asset Development Limited	Hong Kong	HK\$2	100	Property trading

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and fully paid ordinary share capital/registered capital	Percentage held	Principal activity
			%	
Rich Horn Development Limited	Hong Kong	HK\$2	100	Property trading
Sabrina Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Sangle Development Limited	Hong Kong	HK\$2	100	Property trading
Senicon Investment Limited	Hong Kong	HK\$2	100	Property trading
Sino Sense Development Limited	Hong Kong	HK\$2	100	Property trading
Sino-Apple Development Limited	Hong Kong	HK\$2	100	Investment holding
Skyway Limited	Hong Kong	HK\$2	100	Property development
Tremendous World Property Limited	Hong Kong	HK\$2	100	Property trading
Trener Investment Limited	Hong Kong	HK\$2	100	Property trading
Universal Talent Development Limited	Hong Kong	HK\$2	100	Property trading
Wen Ying Investments Limited	Hong Kong	HK\$100	100	Property development
Wise Lite Limited	Hong Kong	HK\$2	100	Property development

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2. UNAUDITED INTERIM RESULTS

 The following is an extract from the interim results of the Group for the six months ended 30th June, 2001.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2001

		Six months ended	
		30th June, 2001	30th June, 2000
		HK\$'000	HK\$'000
	Notes	(unaudited)	(unaudited)
Turnover	3	28,082	11,355
Cost of sales and services		<u>(19,702)</u>	<u>(5,632)</u>
Gross profit		8,380	5,723
Other revenue		7	267
Selling and distribution costs		(352)	(493)
Administrative expenses		<u>(8,768)</u>	<u>(9,609)</u>
Loss from operations	4	(733)	(4,112)
Finance costs		(1,757)	(2,258)
Investment income		<u>151</u>	<u>313</u>
Loss for the period		<u><u>(2,339)</u></u>	<u><u>(6,057)</u></u>
Loss per share	6	<u>(HK0.4 cent)</u>	<u>(HK1.0 cent)</u>

There were no recognised gains or losses other than the loss for the period.

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CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2001

		30th June, 2001 HK\$'000 (unaudited)	31st December, 2000 HK\$'000 (audited)
	Notes		
Non-current assets			
Investment properties	7	89,500	89,500
Property, plant and equipment		159,524	160,236
Properties held for development		80,000	80,000
Investments in securities		1	1
Club debenture		205	205
		<u>329,230</u>	<u>329,942</u>
Current Assets			
Properties held for sale		96,660	96,660
Inventories		8,007	1,468
Trade and other receivables	8	7,656	6,153
Investments in securities		110	110
Pledged bank deposits		10,000	10,000
Bank balances and cash		14,493	24,070
		<u>136,926</u>	<u>138,461</u>
Current Liabilities			
Trade and other payables	9	11,295	12,613
Bills payable		—	1,758
Tax payable		2,546	2,546
Bank borrowings - due within one year	10	13,106	6,688
		<u>26,947</u>	<u>23,605</u>
Net Current Assets		<u>109,979</u>	<u>114,856</u>
		<u>439,209</u>	<u>444,798</u>
Capital and Reserves			
Share capital	11	58,293	58,293
Reserves	12	348,416	350,755
		406,709	409,048
Non-current Liability			
Bank borrowings - due after one year	10	32,500	35,750
		<u>439,209</u>	<u>444,798</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2001

	HK\$'000
	(unaudited)
Net cash outflow from operating activities	(11,139)
Net cash outflow from returns on investments and servicing of finance	<u>(1,606)</u>
Net cash outflow before financing	(12,745)
Net cash inflow from financing	<u>3,168</u>
Decrease in cash and cash equivalents	(9,577)
Cash and cash equivalents at 1st January, 2001	<u>24,070</u>
Cash and cash equivalents at 30th June, 2001	<u><u>14,493</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), and with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants except that, in this first year of implementation of SSAP 25, as permitted by the Listing Rules, no comparative amounts have been presented for the condensed statement of recognised gains and losses and the condensed cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, SSAP 26 “Segment Reporting”. The Group has changed the basis of identification of reportable segments to that required by SSAP 26. Segment disclosures for the six months ended 30th June, 2000 have been amended so that they are presented on a consistent basis.

3. SEGMENT INFORMATION

Business Segments

For the six months ended 30th June, 2001	Hotel operation <i>HK\$'000</i>	Steel trading <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>10,587</u>	<u>15,427</u>	<u>2,068</u>	<u>28,082</u>
SEGMENT RESULT	<u>1,952</u>	<u>(328)</u>	<u>930</u>	2,554
Unallocated corporate expenses				<u>(3,287)</u>
Loss from operations				<u>(733)</u>

APPENDIX II

FINANCIAL INFORMATION ON THE GROUP

For the six months ended 30th June, 2000	Hotel operation <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>9,350</u>	<u>2,005</u>	<u>11,355</u>
SEGMENT RESULT	<u>290</u>	<u>1,452</u>	1,742
Unallocated corporate expenses			<u>(5,854)</u>
Loss from operations			<u>(4,112)</u>

Geographical Segments

For the six months ended 30th June, 2001	The People's Republic of China, other than Hong Kong <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>10,601</u>	<u>17,481</u>	<u>28,082</u>
SEGMENT RESULT	<u>1,908</u>	<u>646</u>	2,554
Unallocated corporate expenses			<u>(3,287)</u>
Loss from operations			<u>(733)</u>

For the six months ended 30th June, 2000			
REVENUE	<u>9,350</u>	<u>2,005</u>	<u>11,355</u>
SEGMENT RESULT	<u>290</u>	<u>1,452</u>	1,742
Unallocated corporate expenses			<u>(5,854)</u>
Loss from operations			<u>(4,112)</u>

4. LOSS FROM OPERATIONS

Loss from operations for the current period has been arrived at after charging depreciation of approximately HK\$711,000 (six months ended 30th June, 2000: HK\$980,000) in respect of the Group’s property, plant and equipment.

5. TAXATION

No provision for Hong Kong Profits Tax or overseas taxation has been made in the financial statements as the Company and its subsidiaries have no assessable profits for either period.

6. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period of approximately HK\$2,339,000 (six months ended 30th June, 2000: HK\$6,057,000) and on the weighted average number of 582,925,192 ordinary shares (six months ended 30th June, 2000: 582,925,192 ordinary shares) in issue during the period.

7. INVESTMENT PROPERTIES

At 30th June, 2001, the directors have considered the carrying amounts of the Group’s investment properties carried at the revalued amounts and have estimated that the carrying amounts as at 30th June, 2001 do not differ significantly from the open market value of those properties as at 30th June, 2001. Consequently, no revaluation surplus or deficit has been recognised in the current period.

8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of the Group’s trade receivables as at the balance sheet date:

	30th June, 2001 <i>HK\$’000</i> <i>(unaudited)</i>	31st December, 2000 <i>HK\$’000</i> <i>(audited)</i>
0 - 60 days	1,123	2,666
61 - 90 days	324	343
91 - 120 days	83	735
> 120 days	<u>638</u>	<u>518</u>
Total trade receivables	2,168	4,262
Other receivables	<u>5,488</u>	<u>1,891</u>
	<u><u>7,656</u></u>	<u><u>6,153</u></u>

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group’s trade payables as at the balance sheet date:

	30th June, 2001 HK\$'000 (unaudited)	31st December, 2000 HK\$'000 (audited)
0 - 60 days	1,756	3,291
61 - 90 days	326	570
91 - 120 days	280	322
> 120 days	<u>257</u>	<u>380</u>
Total trade payables	2,619	4,563
Other payables	<u>8,676</u>	<u>8,050</u>
	<u>11,295</u>	<u>12,613</u>

10. BANK BORROWINGS

During the period, the Group repaid HK\$3,510,000 of its bank borrowings, and obtained new bank borrowings of HK\$6,678,000.

11. SHARE CAPITAL

	Number of shares		Nominal value	
	30th June, 2001 HK\$'000 (unaudited)	31st December, 2000 HK\$'000 (audited)	30th June, 2001 HK\$'000 (unaudited)	31st December, 2000 HK\$'000 (audited)
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the period/year	1,000,000,000	600,000,000	100,000	60,000
Increase during the period/year	<u>—</u>	<u>400,000,000</u>	<u>—</u>	<u>40,000</u>
At end of the period/year	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:				
At beginning of the period/year	582,925,192	486,925,192	58,293	48,693
Issue of new shares	<u>—</u>	<u>96,000,000</u>	<u>—</u>	<u>9,600</u>
At end of the period/year	<u>582,925,192</u>	<u>582,925,192</u>	<u>58,293</u>	<u>58,293</u>

12. RESERVES

	Share premium <i>HK\$'000</i>	Hotel property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2000	360,299	43,695	(56,848)	5,427	352,573
Exchange adjustments	—	—	(90)	—	(90)
Share premium arising from issue of shares	14,400	—	—	—	14,400
Deficit on revaluation of hotel properties	—	(2,000)	—	—	(2,000)
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,128)</u>	<u>(14,128)</u>
At 31st December, 2000	374,699	41,695	(56,938)	(8,701)	350,755
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,339)</u>	<u>(2,339)</u>
At 30th June, 2001	<u>374,699</u>	<u>41,695</u>	<u>(56,938)</u>	<u>(11,040)</u>	<u>348,416</u>

The Company had no reserve available for distribution to the shareholders as at 31st December, 2000 and 30th June, 2001.

13. PLEDGE OF ASSETS

At 30th June, 2001, the Group’s investment properties and bank deposits and all accrued interest thereon amounting to HK\$77,000,000 (31st December, 2000: HK\$88,600,000) and HK\$10,000,000 (31st December, 2000: HK\$10,000,000), respectively were pledged to secure banking facilities.

14. POST BALANCE SHEET EVENTS

Subsequently to the balance sheet date, the Company offered a Rights Issue of 83,275,027 Rights Shares of HK\$0.10 each on the basis of one Rights Share for every seven Shares held on 27th August, 2001 at HK\$0.35 per Rights Share payable in full on acceptance. Details of the Rights Issue are set out in the Company’s prospectus dated 27th August, 2001.

3. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following pro forma statement of assets and liabilities of the Enlarged Group was prepared based on the unaudited consolidated financial statements of the Group as at 30th June, 2001 and as if Can Manage became a wholly-owned subsidiary of the Company on 30th June, 2001:

CHINA INVESTMENTS HOLDINGS LIMITED

POR FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP (in HK\$'000)									
	Unaudited consolidated statement of assets and liabilities of the Group as at 30th June 2001	Net proceeds from Rights Issue of 83,275,027 Rights Shares of HK\$0.1 each at HK\$0.35 per Rights Share per prospectus dated 27th August 2001	Net proceeds from issue of HK\$230 million Convertible Notes	Purchase of the entire interests in Can Manage and assignment of loans of Can Manage due to its ex-shareholder by cash consideration of HK\$222 million and issuing of Note of HK\$48 million	Combination of consolidated statement of assets and liabilities of Can Manage as at 31st December 2001	Ex-shareholder of Can Manage repaid the long term unsecured other loan of Can Manage on behalf of Can Manage after 31st December 2001	Elimination of investment costs in Can Manage and inter-company balances	Net proceeds from Rights Issue of 133,240,043 Rights Shares of HK\$0.1 each at HK\$0.21 per Rights Share	Total
					Note 1	Note 2			
Non-current Assets									
Investment properties	89,500								89,500
Property, plant and equipment	159,524				63,464				222,988
Properties held for development	80,000								80,000
Investments in securities	1								1
Construction in progress					13,469				13,469
Club debenture	205								205
Investment in subsidiary				179,593			(179,593)		0
Loan from Can Manage				90,407			(90,407)		0
	<u>329,230</u>	<u>0</u>	<u>0</u>	<u>270,000</u>	<u>76,933</u>	<u>0</u>	<u>(270,000)</u>	<u>0</u>	<u>406,163</u>
Intangible Assets									
Goodwill							173,888		173,888
Current Assets									
Properties held for sale	96,660								96,660
Inventories	8,007				3,370				11,377
Trade and other receivables	7,656				22,924				30,580
Investments in securities	110								110
Pledged bank deposits	10,000								10,000
Bank balances and cash	<u>14,493</u>	<u>27,000</u>	<u>224,075</u>	<u>(222,000)</u>	<u>2,470</u>			<u>26,500</u>	<u>72,538</u>
	<u>136,926</u>	<u>27,000</u>	<u>224,075</u>	<u>(222,000)</u>	<u>28,764</u>	<u>0</u>	<u>0</u>	<u>26,500</u>	<u>221,265</u>

APPENDIX II

FINANCIAL INFORMATION ON THE GROUP

	Unaudited consolidated statement of assets and liabilities of the Group as at 30th June 2001	Net proceeds from Rights Issue of 83,275,027 Rights Shares of HK\$0.1 each at HK\$0.35 per Rights Share per prospectus dated 27th August 2001	Net proceeds from issue of HK\$230 million Convertible Notes	Purchase of the entire interests in Can Manage and assignment of loans of Can Manage due to its ex-shareholder by cash consideration of HK\$222 million and issuing of Consideration Note of HK\$48 million	Combination of consolidated statement of assets and liabilities of Can Manage as at 31st December 2001	Ex-shareholder of Can Manage repaid the long term unsecured other loan of Can Manage on behalf of Can Manage after 31st December 2001	Elimination of investment costs in Can Manage and inter-company balances	Net proceeds from Rights Issue of 133,240,043 Rights Shares of HK\$0.1 each at HK\$0.21 per Rights Share	Total
					<i>Note 1</i>	<i>Note 2</i>			
Current Liabilities									
Trade and other payables	(11,295)				(9,585)				(20,880)
Bills payable	0								0
Tax payable	(2,546)								(2,546)
Bank borrowings									
- due within one year	(13,106)								(13,106)
	<u>(26,947)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(9,585)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(36,532)</u>
Net Current Assets	<u>109,979</u>	<u>27,000</u>	<u>224,075</u>	<u>(222,000)</u>	<u>19,179</u>	<u>0</u>	<u>0</u>	<u>26,500</u>	<u>184,733</u>
Total Assets Less Current Liabilities	439,209	27,000	224,075	48,000	96,112	0	(96,112)	26,500	764,784
Non-current Liabilities									
Bank borrowings									
- due after one year	(32,500)								(32,500)
Convertible notes			(230,000)						(230,000)
Consideration note				(48,000)					(48,000)
Amount due to a shareholder					(40,147)	(50,260)	90,407		0
Other loan - unsecured					(50,260)	50,260			0
	<u>406,709</u>	<u>27,000</u>	<u>(5,925)</u>	<u>0</u>	<u>5,705</u>	<u>0</u>	<u>(5,705)</u>	<u>26,500</u>	<u>454,284</u>
Capital and Reserves									
Share capital	58,293	8,328			0		0	13,324	79,945
Reserves	<u>348,416</u>	<u>18,672</u>	<u>(5,925)</u>		<u>5,705</u>		<u>(5,705)</u>	<u>13,176</u>	<u>374,339</u>
	<u>406,709</u>	<u>27,000</u>	<u>(5,925)</u>	<u>0</u>	<u>5,705</u>	<u>0</u>	<u>(5,705)</u>	<u>26,500</u>	<u>454,284</u>

Note 1: Agreed to the Accountants’ Report of Can Manage as at 31st December 2001 issued by HLM & Co.

Note 2: Subsequent to 31st December 2001, the ex-shareholder of Can Manage has arranged to repay the entire balance of long term unsecured other loan of Can Manage and accordingly, the balance has been reclassified as amount due to a shareholder of Can Manage after 31st December 2001.

4. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following pro forma statement of unaudited adjusted consolidated net tangible assets of the Group is based on the audited consolidated net tangible assets of the Group as at 31st December, 2000, the unaudited interim results for the six months ended 30th June, 2001, the net proceeds from the rights issue in August, 2001 as well as the effect of the Rights Issue and the Acquisition:

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the Group as at 31st December, 2000	409,048
Less: Unaudited loss of the Group for the six months ended 30th June, 2001 as shown in the interim report	(2,339)
Add: Net proceeds from the rights issue of the Company as set out in the prospectus dated 27th August, 2001	<u>27,000</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately prior to the Rights Issue and the Acquisition	433,709
Add: Estimated net proceeds from the Rights Issue (<i>Note</i>)	26,500
Less: Estimated goodwill arising from the Acquisition	<u>(179,813)</u>
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately following the Rights Issue and the Acquisition	<u><u>280,396</u></u>
Pro forma unaudited adjusted consolidated net tangible assets per Share immediately prior to the Rights Issue and the Acquisition (based on 666,200,219 Shares in issue as at the Latest Practicable Date)	<u><u>HK\$0.65</u></u>
Pro forma unaudited adjusted consolidated net tangible assets per Share immediately following the Rights Issue and the Acquisition (based on 799,440,262 Shares in issue upon completion of the Rights Issue as enlarged by the issue of 133,240,043 Rights Shares prior to and including the Record Date)	<u><u>HK\$0.35</u></u>

Note: Details of the Rights Issue were set out in the prospectus of the Company dated 19th March, 2002.

5. WORKING CAPITAL

The Directors are of the opinion that, taking into account the Group's present available banking facilities, internal resources and the net estimated proceeds of the Rights Issue and the Convertible Notes, the Group has sufficient working capital for its present requirements in the absence of unforeseen circumstances.

6. INDEBTEDNESS

At the close of business on 31st January, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK\$47,392,000, comprising secured bank loans of approximately HK\$35,750,000, secured trust receipt loans of approximately HK\$10,909,000 and secured bank overdrafts of approximately HK\$733,000.

The Group's current banking facilities are secured by legal charge on the Group's investment properties located in Hong Kong of approximately HK\$77.0 million being the value as at 31st December, 2000 and bank deposits and all accrued interest thereon of approximately HK\$10.0 million as at 31st January, 2002 respectively.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31st January, 2002.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st January, 2002.

The Directors have confirmed that there has been no material change in the indebtedness of the Group since 31st January, 2002.

7. MATERIAL CHANGES

Save as disclosed in this Circular, there has been no material adverse change in the financial position or prospects of the Group since 31st December, 2000, the date to which the latest audited financial statements of the Group were made up.

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from Sallmanns, an independent valuer, in connection with its valuation as at 28th February, 2002 of the property interests to be acquired by China Investment in the PRC.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

西門

15th Floor
Trinity House
165-171 Wanchai Road
Wanchai
Hong Kong

20th March, 2002

The Directors
China Investment Holdings Limited
Unit 901 Wing On Plaza
62 Mody Road
Tsimshatsui
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests of Can Manage Trading Limited (“Can Manage”) and its wholly owned subsidiary 南海佳順木業有限公司 (Jia Shun Timber Company Limited) (the “PRC Company”) (together, the “Group”) in which China Investment Holdings Limited (“China Investment”) intends to acquire, 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 value of the relevant properties as at 28th February, 2002.

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

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

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

For property no. 1 in Group I, due to a lack of comparable transactions we are unable to attribute open market value; our valuation is our opinion of the property’s fair market value of the property. Fair market value is defined as the estimated amount at which the subject asset in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, for continuation of the current operation as part of an on-going business.

Where, due to the nature of buildings and structures constructed on property no. 1 in Group I, there are no market sales comparables, the property has been valued on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as the aggregate amount of the value of the land for the existing use of a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than might be realised from the disposition of the subject asset in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

Our valuations have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the properties.

Based on the open market approach, property no. 2 in Group II which is rented by the PRC Company in the PRC has no commercial value due mainly to the short term nature or the exhibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents or the insufficient proof of legal title to the property.

In valuing the property interests in the PRC, we have complied with all the requirements contained in Practice Note 12 to the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited.

We have been shown copies of various title documents, tenancy agreement and official site plans relating to the properties in the PRC. However, we have not checked the title of the properties and have not scrutinised the original title documents. We have relied on the advice given by Can Manage, the PRC Company, China Investment and its legal adviser on PRC laws, Guangdong HuaFa Law Firm (the “PRC Legal Adviser”) regarding the title to the properties.

The current status regarding major approvals, title documents and other requisite documents of the PRC properties, which have been confirmed by the PRC Legal Adviser, is set out as follows:

Property	Document/Approval			
	State-owned Land Use Rights Certificate	State-owned Land Use Rights Grant/ Transfer Contract	Building Ownership Certificates	Tenancy Agreement
Group I — Property interest held and occupied by the PRC Company in the PRC				
1.	Yes	Yes	Yes	N/A
Group II — Property interest rented and occupied by the PRC Company in the PRC				
2.	N/A	N/A	N/A	Yes

Note: N/A — Not Applicable

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the relevant properties but have assumed that the areas shown on the documents and official plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

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

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

We have relied to a considerable extent on the information provided by China Investment, Can Manage and the PRC Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, letting, rentals, site and floor areas and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by China Investment, Can Manage and the PRC Company. We have also sought and received confirmation from China Investment, Can Manage and the PRC Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

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

Our valuations are summarised below and the valuation certificate is attached.

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

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

SUMMARY OF VALUES

Group I — Property interest held and occupied by the PRC Company in the PRC

Property	Fair market value in existing state as at 28th February, 2002 RMB
1. Land (Land Parcel Nos. 13032282 and 13032285), various buildings and structures located at Worldwide Industrial Zone Shatou Town Nanhai City Guangdong Province The PRC	44,530,000
Sub-total:	<u>44,530,000</u>

Group II — Property interest rented and occupied by the PRC Company in the PRC

Property	Open market value in existing state as at 28th February, 2002 RMB
2. Various buildings located at Previous Yao Xin Long Packaging Material Factory Worldwide Industrial Zone Shatou Town Nanhai City Guangdong Province The PRC	No commercial value
Sub-total:	<u>Nil</u>
Total:	<u><u>44,530,000</u></u>

VALUATION CERTIFICATE

Group I — Property interest held and occupied by the PRC Company in the PRC

Property	Description	Particulars of occupancy	Fair market value in existing state as at 28th February, 2002 RMB
1. Land (Land Parcel Nos. 13032282 and 13032285), various buildings and structures located at Worldwide Industrial Zone Shatou Town Nanhai City Guangdong Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 62,798 sq.m. on which 22 buildings and additional structures are erected. The buildings and structures were completed in about 2001 with a total gross floor area of 20,312.22 sq.m. The major buildings and strcutures include factories, an office building, warehouses, pump rooms, electicity distribution rooms, a bolier room, etc. The property was granted with the land use rights for a term expiring on 14th August, 2050 for industrial factory use.	The property is currently occupied by the PRC Company for industrial factory and ancillary purposes.	44,530,000

Notes:

1. Pursuant to two State-owned Land Use Rights Certificates - Nan Fu Guo Yong (2001) Zi Di Te No. 130040 and Nan Fu Guo Yong (2001) Zi Di Te No. 130041 issued by Nanhai City State Land Bureau on 26th December, 2001, the land use rights of the subject land are granted to the PRC Company for a term expiring on 14th August, 2050 for industrial factory use.
2. The PRC Company is a foreign wholly owned investment enterprise established in the PRC and wholly owned by Can Manage.
3. Pursuant to two State-owned Land Use Rights Transfer Contracts dated 8th September, 2001 entered into between 南海市環球工貿企業集團 (“Party A”) and the PRC Company (“Party B”), the land use rights of the subject land are transferred from Party A to Party B at a consideration of RMB28,259,100.
4. Pursuant to 22 Building Ownership Certificates dated 12th January, 2002 issued by Guangdong Province People’s Government, the buildings of the property are held by the PRC Company with a total gross floor area of approximately 20,312.22 sq.m.

5. The legal opinion from the PRC Legal Adviser, states, amongst others, that:
- (i) The PRC Company is the legal owner of the property.
 - (ii) All the land use rights fee have been paid.
 - (iii) The property interest held by the PRC Company is legal and valid under the PRC laws or any relevant regulations.
 - (iv) The PRC Company is entitled to freely transfer, sublet, mortgage or otherwise dispose of the property without payment of any land premium in accordance with the PRC laws.

Group II — Property interest rented and occupied by the PRC Company in the PRC

				Open market value in existing state as at 28th February, 2002 RMB
Property	Description	Particulars of occupancy		
2. Various buildings located at Previous Yao Xin Long Packaging Material Factory Worldwide Industrial Zone Shatou Town Nanhai City Guangdong Province The PRC	The property comprises one 2-storey office building and three 1-storey warehouse and dormitory buildings with a total gross floor area of approximately 4,628 sq.m. and some open land area with a land area of approximately 2,836 sq.m. The property is rented to the PRC Company from an independent third party for a term commencing from 1st May, 2001 to 31st May, 2003 at a monthly rental of RMB8,334.	The property is currently occupied by the PRC Company for office, warehouse and dormitory purposes.		No commercial value

Note:

1. The PRC Company is a foreign wholly owned investment enterprise established in the PRC and wholly owned by Can Manage.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

西門

15th Floor
Trinity House
165-171 Wanchai Road
Wanchai
Hong Kong

20th March, 2002

The Directors
China Investments Holdings Limited
Unit 901 Wing On Plaza
62 Mody Road
Tsimshatsui
Kowloon
Hong Kong

Dear Sirs,

In accordance with instructions from China Investments Holdings Limited (“China Investments”) we have undertaken a valuation of a 100 per cent equity interest in Can Manage Trading Limited (“Can Manage”) and its subsidiary, 南海佳順木業有限公司 (the “PRC Company”) (together, the “Group”) as at 15th February, 2002 (“Valuation Date”). This letter summarises the principle conclusions of our detailed valuation report dated 20th March, 2002.

We understand that the valuation is for sale and acquisition reference purposes.

Our valuation has been carried out on a market value basis in accordance with your specific instructions. Market value *is the estimated amount for which an asset 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.*

Can Manage was incorporated in the British Virgin Islands on 16th March, 2000 as a foreign capital enterprise. Mr. Wong Hou Ieong (黃浩洋) is the sole shareholder of Can Manage and is an independent third party not connected with China Investments, the directors, chief executive, substantial shareholders of China Investments or its subsidiaries or their respective associates. Can Manage is an investment holding company with no operating activity and its principal asset is its 100% equity interest in the PRC Company. According to the document, 《關於外資經營裝飾板材項目可行性報告的批覆》南計(2001) 41號 (the Feasibility Study Approval, reference no.:(2001)41) from 南海市計劃局 (“Nanhai Planning Bureau”) dated 22nd August, 2001, Can Manage is allowed to operate as a wholly foreign owned enterprise to engage in the business of decorative wood-based panels in 南海市沙頭鎮 (“Nanhai Shatou”) for a period of 25 years.

On 22nd August, 2001, according to the document, 《關於外資經營南海佳順木業有限公司申請表,章程的批覆》南計(2001) 33號 (the approval on the operation of the PRC Company, reference no.:(2001)33) from Nanhai Planning Bureau, Can Manage was allowed to operate and manage the PRC Company for a period of 25 years.

The PRC Company is a wholly foreign owned enterprise incorporated in the PRC on 31st August, 2001 with a registered capital of HK\$ 39.8 million which has been fully contributed by Can Manage. The PRC Company is principally engaged in the production and sale of veneer, plywood and medium density fiberboard and has its manufacturing facilities located on two parcels of land with an area of approximately 62,798 square meters in Nanhai Municipality of Guangdong Province, the PRC. The PRC Company commenced its business in August 2001 and completed its trial production in December 2001. Currently, the PRC Company is equipped with two fiberboard production lines which have an annual production capacity of 100,000 cubic metres. A third production line is currently under installation and is expected to commence operation in the second quarter of 2002. This will increase the annual production capacity to 180,000 cubic metres. In view of the market potential for medium density fiberboard (“MDF”) in the PRC, the PRC Company has focused its production on MDF.

MDF is made from wood chips and wood scraps which are ground, compressed and glued and is mainly used for interior panelling and as a substitute for plywood. As there are numerous timber processing manufacturers and furniture manufacturers located around the delta region of the Pearl River in Guangdong Province of the PRC which treat wood chips and scraps as waste products, there is an abundant supply of such waste products. The PRC Company is regarded and encouraged as an environmental friendly business by the local Government. The PRC Company currently manufactures a range of medium density fiberboard, including 9mm, 12mm, 15mm, and 18mm in thickness, and its products are mainly sold in the domestic market, in particular, Guangdong Province in the PRC.

On 19th February, 2002, Mr. Wong Hou Ieong entered into an Acquisition Agreement with China Investments whereby he unconditionally and irrevocably gave a profit guarantee (“Profit Guarantee”) to China Investments such that, on the basis that the principal business and the principal mode of operation of the Group remains materially the same during the two financial years of 2002 and 2003, the audited net profits after taxation for the years ending 31st December, 2002 and 31st December, 2003 as prepared in accordance with HK GAAP shall not be less than an amount equivalent to HK\$ 70 million and HK\$80 million respectively. Mr. Wong Hou Ieong shall pay to China Investments in cash the full sum of an amount equal to 100 percent of the difference between the audited net profits and the guaranteed profits in the respective year.

In assessing the market value of the Group, we have adopted the income approach technique known as the discounted cash flow method. Under the discounted cash flow method, value depends on the present worth of the future economic benefits to be derived from contractual agreements and projected businesses. Indications of value have been developed by discounting projected net future cash flow available for payment of shareholders’ interest to their present worth at market derived rates of return over the joint venture period which in our opinion are appropriate for the risks of the business.

We have reviewed relevant information, documents and other pertinent data relating to the Group. We believe such information to be reliable and legitimate. We have also made relevant inquiries and obtained further information as considered necessary for the purposes of this valuation.

The valuation of the Group requires consideration of all pertinent factors affecting the operations of the respective operational areas and the company's ability to generate future investment returns. The factors considered in this valuation included, but were not limited to, the following:

- the operating condition of the Group;
- the economic outlook in general and the specific economic environment related to the business;
- past and projected operating results of the Group;
- the potential of the business, technological and industrial outlook;
- comparative advantages and disadvantages of the business and industry;
- market-derived investment returns of entities engaged in similar lines of business;
- the financial and operational risk of the business including the continuity of income and the projected future results; and
- the Profit Guarantee given by Mr. Wong Hou Ieong in the Acquisition Agreement signed between China Investments and Mr. Wong Hou Ieong dated 19th February, 2002.

In determining the value of the Group, we have made the following key assumptions:

- Can Manage does not have any operations of its own except for the investment in the PRC Company. We assume that the total expenses of Can Manage are immaterial and negligible for the purpose of preparing the financial model.
- We estimated the future cash flow for the PRC Company for the period 2002-2007, we therefore assume that the projected business for each division could be achieved with the effort of the Group's management.
- In order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For the valuation exercise, we assume that proposed facilities and systems are sufficient for future expansion.

- We have assumed that the terms and conditions of the Profit Guarantee will be honoured by Mr. Wong Hou Ieong.
- We have assumed that all sales and purchase contracts and agreements will be renewed and honoured with similar terms upon expiry.
- We have assumed that the installation of the third production line will be completed in the second quarter of 2002.

In determining the discount rate for the operations adopted in the valuation, we have taken into account a number of factors including the current market information and the underlying risk inherent in the business, such as uncertainty risk, liquidity risk, exchange rate risk, etc..

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Group and Sallmanns.

The market value of the Group was determined in Renminbi and converted to HK\$ using an exchange rate of HK\$0.95 per RMB1.00. There has been no significant fluctuation in the exchange rate for Renminbi against the Hong Kong dollar between the Valuation Date and the date of this report.

Based on our investigation and analysis, it is our opinion that as at 15th February, 2002, the market value of a 100% equity interest in the Group is reasonably stated by the amount of RMB319 million (**RENMINBI THREE HUNDRED AND NINETEEN MILLION ONLY**) or **HK\$303 million (HONG KONG DOLLARS THREE HUNDRED AND THREE MILLION ONLY)**.

Yours faithfully,
For and on behalf of
SALLMANNS (FAR EAST) LIMITED
Brett A. Shadbolt
Managing Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which had been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Number of shares held Corporate interests	Approximate percentage of total issued share capital
Leung Siu Fai	126,342,316 (Note)	18.96%

Note: These shares are held in the name of Mighty Management which is beneficially owned by Mr. Leung Siu Fai.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest in the share capital of the Company or any of its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

(b) Mr. Lee Yip Wah, Peter, a non-executive Director, is a partner of Woo, Kwan, Lee & Lo, legal advisers to the Company on Hong Kong Law in respect of the Acquisition, the Placing and the Rights Issue. Woo, Kwan, Lee & Lo will receive normal professional fees in respect of the professional services rendered.

- (c) Save as disclosed herein, there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.
- (d) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31st December, 2000 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under section 16(1) of the SDI Ordinance and so far as was known to the Directors and the chief executive of the Company, the following persons other than the Directors, were interested or taken or deemed to be interested in 10 per cent. or more of the nominal value of the issued share capital of the Company:

Name of the shareholder	Number of shares held	Approximate percentage of total issued share capital
Mighty Management (<i>Note 1</i>)	126,342,316	18.96%
Madam Lu	109,714,285	16.47%
Mr. Ng Lap Seng, Ms. Pun Nun Ho and San Kin Yip Holdings Company Limited (<i>Note 2</i>)	68,511,118	10.28%

Note 1: Mighty Management is beneficially owned by Mr. Leung Siu Fai.

Note 2: San Kin Yip Holdings Company Limited is beneficially equally held by Mr. Ng Lap Seng and Ms. Pun Nun Ho.

Save as disclosed herein, the Directors were not aware of any person, who was, directly or indirectly, interested in 10 per cent. or more of the nominal value of the issued share capital of the Company or any of its subsidiaries as at the Latest Practicable Date.

MATERIAL CONTRACTS

No contracts (other than contracts entered into in the ordinary course of business) had been entered into by any member of the Group within two years immediately preceding the date of this circular which are or may be material other than the following agreements:

- on 28th April, 2000, the Company entered into an agreement with Madam Lu for the issue of 96,000,000 Shares of HK\$0.10 each of the Company at a price of HK\$0.25 per Share;
- on 3rd August 2000, an agreement was entered into between Kawan (HK) Trading Company Limited, a wholly-owned subsidiary of the Company, and Darco International Limited for the purchase of the property located at Unit 1116, Houston Centre, 63 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong at the price of HK\$2,550,000;

3.

the underwriting agreement entered into on 6th August, 2001 between the Company of one part and Asia Financial (Securities) Limited and Sanfull Securities Limited (collectively, the “previous underwriters”) of the other part, whereby the previous underwriters agreed to underwrite at the subscription price of HK\$0.35 per right share a maximum of 47,625,096 rights shares pursuant to the rights issue offered in August 2001 with an underwriting commission payable by the Company to the previous underwriters in a sum equal to 2.5 per cent. of the total issue price for the underwritten rights shares mentioned therein;
4.

the Acquisition Agreement;
5.

the Placing and Underwriting Agreement; and
6.

the Underwriting Agreement.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, as far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company or any of its subsidiaries.

QUALIFICATION OF EXPERTS

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

Name	Qualification
Rexcapital	Registered investment adviser
HLM & Co.	Certified public accountants
Sallmanns (Far East) Limited	Property valuers
Guangdong HuaFa Law Firm	PRC legal advisers

As at the Latest Practicable Date, none of Guangdong HuaFa Law Firm, Rexcapital, HLM & Co., Deloitte Touche Tohmatsu and Sallmanns (Far East) Limited had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any member of the Group.

Since 31st December, 2000, being the date to which the latest published audited accounts of the Company were made up, and as at the Latest Practicable Date, none of Guangdong HuaFa Law Firm, Rexcapital, HLM & Co. and Sallmanns (Far East) Limited had any interest, whether direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group or which had been proposed to be acquired or disposed of by or leased to any member of the Group.

CONSENTS

Guangdong HuaFa Law Firm, Rexcapital, HLM & Co. and Sallmanns (Far East) Limited have given and have not withdrawn their consent to the issue of this circular with the inclusion herein of their letters and references to their names, in the form and context in which they appear.

GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is at Unit 901, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong.
- (b) The branch share registrars and transfer office of the Company is Progressive Registration Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (c) The secretary of the Company is Leung Chong Shun, a practising solicitor of Hong Kong.
- (d) All time references contained in this circular refer to Hong Kong time.
- (e) In any event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 901, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong during normal business hours up to and including 8th April, 2002:—

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the written consents referred to in the paragraph headed “Consents” in this Appendix;
- (iii) the material contracts referred to in this Appendix;
- (iv) the Power Supply Agreement;

- (v) the accountants' report on Can Manage, the text of which is set out in Appendix I to this circular;
- (vi) the property valuation report prepared by Sallmanns (Far East) Limited, the text of which is set out in Appendix III to this circular;
- (vii) the business valuation report on Can Manage prepared by Sallmanns (Far East) Limited, the text of which is set out in Appendix IV to this circular;
- (viii) the annual reports of the Company for the two financial years ended 31st December, 1999 and 31st December, 2000 respectively; and
- (ix) the unaudited interim report of the Company for the six months ended 30th June, 2001.

NOTICE OF SPECIAL GENERAL MEETING



CHINA INVESTMENTS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a Special General Meeting of the Company will be held at Garden Rooms, 2nd Floor, the Royal Garden, 69 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 8th April, 2002 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without modification, as ordinary resolutions of the Company:—

ORDINARY RESOLUTIONS

1. “THAT the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 to HK\$300,000,000 by the creation of an additional 2,000,000,000 shares of HK\$0.10 each.”
2. “THAT an agreement dated 19th February, 2002 (the “Acquisition Agreement”), a copy of which marked “A” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification, between Wong Hou Ieong (the “Vendor”) and the Company, pursuant to which the Vendor agreed to sell and the Company agreed to purchase or procure the purchase of the 1 share of US\$1 each in the capital of Can Manage Trading Limited (“Can Manage”), representing its entire issued share capital, and the unsecured and non-interest bearing loan in the principal amount of HK\$90,347,672 outstanding and owing by Can Manage to the Vendor for an aggregate consideration of HK\$270,000,000, which will be satisfied by the Company (i) as to HK\$222,000,000 payable in cash upon completion; and (ii) the remaining sum of HK\$48,000,000 payable either in cash or by the issue of the convertible note in the aggregate principal amount of HK\$48,000,000 (the “Consideration Note”) by the Company in accordance with the terms of the Acquisition Agreement, together with all the other transactions contemplated thereunder, be and is hereby approved and THAT the directors of the Company be and are hereby authorised to make or agree to such variations of a non-material nature in the terms of the Acquisition Agreement as they may in their absolute discretion consider to be desirable and in the interests of the Company and THAT the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their absolute discretion, consider necessary or desirable or expedient for the purpose of or in connection with the implementation of the Acquisition Agreement and the exercise or enforcement of any of the Company’s rights under the Acquisition Agreement including, inter alia, upon the Acquisition Agreement becoming unconditional, the authority to complete the Acquisition Agreement and/or to procure completion of the same and to issue the Consideration Note and the allotment and issue of the new shares of the Company upon conversion of the Consideration Note.”

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3. “THAT an agreement dated 18th September, 2001 entered into among 南海佳順木業有限公司 (Nanhai Jia Shun Timber Company Limited) (the “PRC Company”), 南海華光裝飾板材有限公司 (Nanhai Hua Guang Decorative Board Company Limited) (“Hua Guang”), 南海亨達木業有限公司 (Nanhai Heng Da Timber Company Limited) (“Heng Da”), 南海華盈木業有限公司 (Nanhai Hua Ying Timber Company Limited) (“Hua Ying”) and Smart Giant Investment Limited (“Smart Giant”) as supplemented by a supplemental agreement thereto dated 3rd January, 2002 entered into among the PRC Company, Hua Guang, Heng Da and Hua Ying, Smart Giant and 南海恆益木業有限公司 (Nanhai Heng Yi Timber Company Limited) (“Heng Yi”) (together, the “Power Supply Agreement”), a copy of which marked “B” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification, in relation to the co-management and co-use of the power plant jointly built by the parties to the Power Supply Agreement for the generation of electricity and steam, together with all the transactions contemplated thereunder or arising therefrom (including the obtaining of the supply of electricity and steam by the PRC Company from the power plant and the administration, management and/or maintenance of the power plant by the PRC Company pursuant to the Power Supply Agreement), be and is hereby approved and THAT the directors of the Company be and are hereby authorised to make or agree to such variations of a non-material nature in the terms of the Power Supply Agreement as they may in their absolute discretion consider to be desirable and in the interests of the Company and/or the PRC Company and THAT the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their absolute discretion, consider necessary or desirable or expedient for the purpose of or in connection with the implementation of the Power Supply Agreement.”
4. “THAT a placing and underwriting agreement dated 19th February, 2002 (the “Placing and Underwriting Agreement”), a copy of which marked “C” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification, entered into between Kingston Securities Limited, Get Nice Investment Ltd., Sanfull Securities Limited, Taifair Securities Limited, DL Brokerage Limited and Hui Kai Securities Limited (together the “Placing Agents”) and the Company, pursuant to which the Company agreed with the Placing Agents to issue the 2007 convertible note or notes in units of HK\$1,000,000 each in an aggregate principal amount of HK\$230,000,000 to be issued by the Company (the “Convertible Notes”), together with all the other transactions contemplated thereunder, be and is hereby approved and THAT the directors of the Company be and are hereby authorised to make or agree to such variations of a non-material nature in the terms of the Placing and Underwriting Agreement as they may in their absolute discretion consider to be desirable and in the interests of the Company and THAT the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their absolute discretion, consider necessary or desirable or expedient for the purpose of or in connection with the implementation of the Placing and Underwriting Agreement and the

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exercise or enforcement of any of the Company's rights under the Placing and Underwriting Agreement including, inter alia, upon the Placing and Underwriting Agreement becoming unconditional, the authority to complete the Placing and Underwriting Agreement and/or to procure completion of the same and to issue the Convertible Notes and the allotment and issue of the new shares of the Company upon conversion of the Convertible Notes."

Yours faithfully,
By Order of the Board
Leung Chong Shun
Secretary

Date: 20th March, 2002

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:

Unit 901, Wing On Plaza
62 Mody Road
Tsimshatsui
Kowloon
Hong Kong

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint another person as his or her proxy to attend and vote instead of him or her. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he or she was solely entitled thereto, but if more than one of such joint holders are present at the 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, and 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.
- (3) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the principal place of business of the Company in Hong Kong at Unit 901, Wing On Plaza, 62 Mody Road, Tsimshatsui, Kowloon, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjournment thereof. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.

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- (4) In respect of Resolution No. 2 as set out above, Madam Lu Biru and her associates (within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) will abstain from voting thereon.
- (5) In respect of Resolution No. 3 as set out above, Madam Lu Biru, Mr. Feng Ming Chang (spouse of Madam Lu Biru) and their associates (within the meaning of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited) will abstain from voting thereon.