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**If you have sold or transferred** all your shares in ING Beijing Investment Company Limited, you should at once hand this document together with the enclosed forms of proxy to the purchaser or to the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or to the transferee.

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## **ING BEIJING INVESTMENT COMPANY LIMITED** **(ING北京投資有限公司)**

*(incorporated in Hong Kong with limited liability)*  
(Stock Code: 1062)

to become a wholly-owned subsidiary of

## **NEW CAPITAL INTERNATIONAL INVESTMENT LIMITED** **新資本國際投資有限公司\***

*(a new holding company incorporated in the Cayman Islands with limited liability and the shares of which are proposed to be listed on The Stock Exchange of Hong Kong Limited by way of introduction)*

by way of a

### **SCHEME OF ARRANGEMENT**

*(under section 166 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong)*

**Financial adviser and sponsor**



Notices of the meeting convened by the direction of the High Court of the Hong Kong Special Administrative Region and the extraordinary general meeting of ING Beijing Investment Company Limited to be held at 41st Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Monday, 7 February 2005 are set out on pages 137 to 140 of this document.

The actions to be taken by you are set out on page 26 of this document. Whether or not you are able to attend any of the meetings in person, you are requested to complete and return the enclosed forms of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the respective times appointed for holding of the meetings. In the case of the meeting convened by direction of the High Court of the Hong Kong Special Administrative Region, you may hand the form of proxy for that meeting to the chairman of the meeting.

Subject to the granting of listing of, and permission to deal in, the shares of New Capital International Investment Limited on The Stock Exchange of Hong Kong Limited and compliance with the stock admission requirements of Hong Kong Securities Clearing Company Limited, those shares will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from the commencement date of dealings in such shares or such other date as determined by Hong Kong Securities Clearing Company Limited. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

13 January 2005

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## EXPECTED TIMETABLE

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2005

Latest time for lodging forms of proxy in respect of:	
the Court Meeting ( <i>Notes 1 and 3</i> ) .....	10:00 a.m., Saturday, 5 February
the EGM ( <i>Notes 2 and 3</i> ) .....	11:00 a.m., Saturday, 5 February
Court Meeting .....	10:00 a.m., Monday, 7 February
EGM .....	11:00 a.m., Monday, 7 February or as soon as thereafter the Court Meeting shall have been concluded or adjourned
Court hearing of petition to sanction the Scheme .....	Tuesday, 1 March
Last day of dealings in the Shares .....	Tuesday, 1 March
Record Time .....	4:00 p.m., Tuesday, 1 March
Withdrawal of listing of the Shares .....	close of business on Tuesday, 1 March
Effective Date .....	Wednesday, 2 March
Dealings in the Newco Shares to commence .....	9:30 a.m., Wednesday, 2 March
First day for exchange of existing certificates for the Shares for new certificates for the Newco Shares free of charge .....	Wednesday, 2 March
Last day for exchange of existing certificates for the Shares for new certificates for the Newco Shares free of charge .....	Tuesday, 29 March

*Notes:*

1. The white form of proxy for the Court Meeting should be deposited with the registrar of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong by the time mentioned above. Alternatively, it may be handed to the chairman of the Court Meeting at the meeting.
2. The yellow form of proxy for the EGM should be deposited with the registrar of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong by the time mentioned above.
3. Completion and return of the forms of proxy will not preclude the Shareholders from attending the meetings and voting in person thereat. In the event that a Shareholder attends a meeting, such form of proxy previously lodged will be deemed to have been revoked.
4. The Scheme will become effective when it is sanctioned, with or without modification, by the Court and an office copy of the Court order and the minutes containing the particulars required by Section 61 of the Companies Ordinance are delivered to and registered by the Registrar of Companies in Hong Kong, which is expected to take place before 9:30 a.m. on 2 March 2005.
5. If there is any change in the above timetable, a separate announcement will be made by the Company.

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## DEFINITIONS

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*In this document (other than in the Scheme, the notices of the Court Meeting and the EGM), the following expressions have the following meanings, unless the context requires otherwise:*

“Beijing Capital”	北京首都創業集團有限公司(Beijing Capital Group Limited), a state-owned limited liability company established in 1995 under the direct supervision of the Beijing Municipal People’s Government and the controlling shareholder of Beijing Capital Land Limited, a company whose H shares are listed on the Stock Exchange
“Board”	the board of Directors
“business day”	a day on which the Stock Exchange is open for business of dealing in securities
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap. 22 (Laws of 1961 as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	ING Beijing Investment Company Limited (ING北京投資有限公司), a company incorporated in Hong Kong with limited liability under the Companies Ordinance, the Shares of which are listed on the Stock Exchange
“Court”	the High Court of Hong Kong, the Court of First Instance
“Court Meeting”	the meeting of the Shareholders which is convened at the direction of the Court
“Directors”	the directors of the Company
“Effective Date”	the date upon which the Scheme becomes effective
“EGM”	the extraordinary general meeting of the Shareholders to be convened for the consideration of, among others, the Scheme
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any delegate of the Executive Director
“Existing Share Option Scheme”	the existing share option scheme of the Company adopted on 16 August 2001

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## DEFINITIONS

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“Explanatory Statement”	the explanatory statement prepared relating to the Scheme in compliance with Section 166A of the Companies Ordinance set out on pages 15 to 26 of this document
“Group”	the Company and its subsidiaries or, where the context so requires, upon the Scheme becoming effective, Newco and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Investment Manager”	Baring Capital (China) Management Limited (formerly known as ING Baring Private Equity (China) Limited and ING Luxfund Management (Hong Kong) Limited), a company incorporated in Hong Kong on 7 December 1993 and a deemed licensed corporation under the SFO permitted to engage in types 4, 6 and 9 of the regulated activities (as defined in the SFO)
“Latest Practicable Date”	10 January 2005, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Newco”	New Capital International Investment Limited, an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law, the proposed new holding company of the Group
“Newco Share(s)”	share(s) of HK\$0.01 each in the share capital of Newco
“Newco Share Option Scheme”	the share option scheme adopted by Newco on a conditional basis
“PRC”	the People’s Republic of China which, for the purpose of this document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Quam”	Quam Capital Limited, a deemed licensed corporation under the SFO permitted to engage in types 4, 6 and 9 of the regulated activities (as defined in the SFO) and the financial adviser to the Company and the sponsor to Newco
“Quarter Day”	31 March, 30 June, 30 September or 31 December in each year or where such a day is not a business day, the business day immediately preceding that day

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## DEFINITIONS

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“Record Time”	4:00 p.m. (Hong Kong time) on the business day immediately preceding the Effective Date
“Scheme”	the reorganisation proposal whereby the Company will become a wholly-owned subsidiary of Newco to be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance
“Scheme Shares”	the Shares in issue at the Record Time
“Sense Control”	Sense Control International Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially and wholly-owned by Mr. Lin Si Yu
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by Sense Control as announced by the Company on 19 April, 20 July and 28 October 2004 and 3 January 2005 and completed on 3 January 2005
“Subscription Shares”	107,600,000 Shares allotted and issued to Sense Control at the issue price of HK\$0.14 each pursuant to the Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$” or “\$” and “cent(s)”	Hong Kong dollar and cent(s) respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollar, the lawful currency of the United States
“%”	per cent.

*There are nine types of regulated activity for regulating licensed corporations and individuals under the licensing regime of the SFO, which are classified as follows: 1 – dealing in securities; 2 – dealing in future contracts; 3 – leveraged foreign exchange trading; 4 – advising on securities; 5 – advising on future contracts; 6 – advising on corporate finance; 7 – providing automated trading services; 8 – securities margin financing; and 9 – asset management. For ease of reference, numeric figures are used in this document for representing each type of these regulated activities.*

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## **RESPONSIBILITY STATEMENT**

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This document includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group, Newco and the Investment Manager. The respective directors of the Company, Newco and the Investment Manager collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this document concerning the Group, Newco or the Investment Manager, the omission of which would make any statements in this document misleading.

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## SUMMARY

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### INTRODUCTION

It is proposed that the structure of the Group be reorganised by way of the Scheme described in this document pursuant to which Newco, a company incorporated in the Cayman Islands with limited liability, will become the new holding company of the Group and the Shareholders will become shareholders of Newco.

The Group, together with its associated companies, is principally engaged in the holding of equity investments primarily in companies or other entities with business interests or involvement in the PRC and/or Hong Kong.

### EFFECTS OF THE SCHEME

If the Scheme becomes effective, Newco will become the sole beneficial shareholder of the Company. Pursuant to the Scheme, the Shareholders will receive one Newco Share for every one Share held by them at the Record Time.

The respective par values of the Shares and the Newco Shares are HK\$0.10 and HK\$0.01. The lower par value of the Newco Shares will not affect the proportion of the net assets of Newco attributable to each of the Shareholders who will become shareholders of Newco when the Scheme becomes effective. An amount equal to the difference between the consolidated net asset value of the Group as at the Effective Date and the aggregate nominal value of all the Newco Shares to be allotted and issued under the Scheme will be credited to the share premium account in the books of Newco, which will be distributable subject to the provisions of the Companies Law and the approval of the shareholders of Newco in general meeting in accordance with the constitutional documents of Newco. The directors of Newco have no present intention to make distribution out of the share premium account of Newco immediately after the implementation of the Scheme. However, such distribution may be made in the future if the directors of Newco consider that such distribution is in the best interests of both Newco and its shareholders as a whole.

Implementation of the Scheme will not, of itself, alter the underlying assets, liabilities, businesses, principal activities or financial position of the Group, other than payment of the expenses relating to the Scheme which amount to approximately HK\$2.1 million. The consolidated assets and liabilities of Newco upon implementation of the Scheme will, save for such expenses, be the same as those of the Group prior to the implementation of the Scheme, and the proportionate interests of the holders of Newco Shares in Newco will be the same as the existing proportionate interests of the Shareholders in the Company. Newco Shares shall give the holders thereof the same rights and obligations as attaching to the Shares.

### REGISTRATION PROCEDURES

Subject to the provisions of the Companies Law, the register of members of Newco will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Ltd. and a branch share register of members of Newco will be maintained in Hong Kong by Standard Registrars Limited, being Newco's branch share registrar in Hong Kong. Unless the directors of Newco otherwise agree, all transfers of and other documents of title to the Newco Shares must be lodged for registration with, and registered by, Newco's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.



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## SUMMARY

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**Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.**

### CONDITIONS OF THE SCHEME

The implementation of the Scheme is conditional upon the satisfaction of the following conditions:

- (i) the Scheme being approved by a majority in number, representing 75% in value, of the Shareholders present and voting in person or by proxy at the Court Meeting;
- (ii) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve and implement the Scheme;
- (iii) the Court sanctioning the Scheme, with or without modification, and an office copy of the order of the Court and the minutes containing the particulars required by Section 61 of the Companies Ordinance are delivered and registered by the Registrar of the Companies in Hong Kong;
- (iv) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Newco Shares in issue and to be issued pursuant to the Scheme and any Newco Shares which may fall to be issued upon the exercise of the subscription rights attaching to the options which may be granted under the Newco Share Option Scheme (representing not exceeding 10% of the issued share capital of Newco as at the date upon listing of the Newco Shares on the Stock Exchange);
- (v) the obtaining of all other necessary consents or authorisations which may be required under any existing contractual arrangements or regulatory requirements; and
- (vi) there must be a minimum of 300 Shareholders at the Record Time.

### ACTIONS TO BE TAKEN

Forms of proxy for use at the Court Meeting and the EGM are enclosed. The white form of proxy is for use at the Court Meeting and the yellow form of proxy is for use at the EGM.

Shareholders are requested to complete and return the white and yellow forms of proxy in accordance with the instructions printed thereon, whether or not they propose to attend the relevant meetings in person. It is requested that forms of proxy be returned as soon as possible and in any event not less than 48 hours before the respective times appointed for the meetings. The white form of proxy for the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the meeting.

Completion and return of the forms of proxy will not preclude the Shareholders from attending and voting in person at the relevant meetings. In the event that a Shareholder attends a meeting, such form of proxy previously lodged will be deemed to have been revoked.

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## SUMMARY

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### RECOMMENDATION

The Directors consider that the Scheme is in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolutions to be proposed at the Court Meeting and the EGM.

**ING BEIJING INVESTMENT COMPANY LIMITED**  
**(ING北京投資有限公司)**

*(incorporated in Hong Kong with limited liability)*

*Executive Directors:*

Mr. Liu Xiao Guang (*Chairman*)  
Mr. Cheng Bing Ren  
Mr. Lawrence H. Wood (also known as Wu Yuk Shing  
or Hu Xu Sheng)  
Mr. Yu Sek Kee, Stephen

*Registered Office:*

41st Floor  
Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

*Non-executive Directors:*

Dr. Poon Kai Leung, James  
Mr. Tong Ng Siu Yee  
Mr. Liu Xue Min

*Independent non-executive Directors:*

Mr. To Chun Kei  
Dr. Kwong Chun Wai  
Mr. Fung Tze Wa

13 January 2005

*To the Shareholders*

Dear Sir or Madam,

**CHANGE OF DOMICILE**

**INTRODUCTION**

The Board announced on 9 October 2003 that the Company intends to reorganise the structure of the Group by means of a scheme of arrangement pursuant to section 166 of the Companies Ordinance. Upon implementation of the Scheme, the Company will become a wholly-owned subsidiary of Newco, a company incorporated in the Cayman Islands with limited liability, and Newco will become the new holding company of the Group.

Pursuant to the Scheme, the Shareholders will become shareholders of Newco. The listing of the Shares on the Stock Exchange will be withdrawn and the Newco Shares will be listed on the Stock Exchange in their place.

The purpose of this document is to provide you with further information on, among other things, the Scheme, the Company, Newco and financial information of the Group, and to give you notices convening the Court Meeting and the EGM for the purpose of considering, and if thought fit, approving, among other matters, the Scheme.

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## LETTER FROM THE BOARD

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### REASONS FOR THE SCHEME

The Group is principally engaged in the holding of investments primarily in companies or other entities with business interests or involvement in the PRC and/or Hong Kong.

In arriving at the recommendation to the Shareholders that the Scheme is in the best interests of the Company and the Shareholders as a whole and that the Shareholders should vote in favour of the Scheme at the Court Meeting and the EGM, the Board has given due consideration to the commercial and legal advantages and disadvantages of having the holding company of the Group incorporated overseas and, for that purpose, in particular to the Cayman Islands and other popular jurisdictions familiar to investors in Hong Kong. The Board has considered the following factors in its decision to propose the Scheme to the Shareholders:

**(i) Flexible business development strategies**

Currently, the Group is principally engaged in the holding of investments primarily in companies or other entities with business interests or involvement in the PRC and/or Hong Kong.

The Company has been limited by its investment objective to invest primarily in the PRC and/or Hong Kong. As the Group intends to seek out and to explore new overseas investment opportunities which may help to increase the return to the Shareholders and to diversify the risk of the Group's portfolio, the Directors believe that having a new holding company incorporated overseas in the Cayman Islands will allow the Group to enjoy a higher degree of flexibility in formulating and carrying out the Group's future investment plans outside Hong Kong and the PRC.

The Cayman Islands is the jurisdiction well known and more accepted by the international institutional investors of the funds community. Such market acceptance is evidenced by the fact that majority of the investment companies listed on the Stock Exchange under Chapter 21 of the Listing Rules since January 2000 are Cayman Islands incorporated companies. As such, the Directors believe that Newco as a Cayman Islands incorporated company would be more appealing to the international institutional investors thereby enhancing its corporate and professional image. Such enhancement will be favourable to the prospect of the Group and is beneficial to the shareholders of Newco as a whole.

The establishment of a new overseas holding company also enables the Group to set up companies directly under the new holding company to exploit any possible future overseas investment and development opportunities separate from the existing PRC-Hong Kong investment structure of the Group in a tax efficient manner. This will provide flexibility and autonomy in the formulation and application of different strategies in line with the individual regulatory, accounting and operational environment in each jurisdiction. The Directors believe that this will enable the Group to manage and evaluate the performance of its investments in a more efficient way.

**(ii) Enhance future equity fund raising ability**

In order for the Group to embark on its future expansion plan and to remain competitive in the present and future economic environment, the Group needs to strengthen its capital base and liquidity. However, the fund raising capability of the Company in capital markets, particularly by

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## LETTER FROM THE BOARD

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way of issue and allotment of new shares, has been severely restricted as the Shares have been trading below their par value from time to time. Upon implementation of the Scheme, listing of the Shares on the Stock Exchange will be withdrawn and the Newco Shares will then become listed on the Stock Exchange. A lower par value of HK\$0.01 for the Newco Shares will enable the Group to facilitate its raising of new capital from the market to further develop its business and to pursue expansion opportunities.

In addition, the Directors believe that, as in the case of many Hong Kong listed companies, an offshore legal domicile of the holding company of the Group in jurisdiction familiar to international investors will allow the Group to project a more international image and will assist in transforming the Group from being perceived as a local group to being seen as an international group, and therefore help to attract new potential investors.

### **(iii) Financial benefits**

From a commercial point of view, administrative expenses involved, including the maintenance of overseas share registrar office, are reasonable and the tax system in the Cayman Islands is more efficient than most of other developed countries. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to Newco which may be imposed by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Island. The Cayman Islands are not party to any double tax treaties. A summary of features of the tax system in the Cayman Islands is set out in the paragraph headed "Taxation, stamp duty and exchange control" in the Explanatory Statement.

Taking into account of the above factors, the Board considered that a holding company incorporated in the Cayman Islands would be the best solution for the reorganisation of the corporate structure of the Group. Accordingly, it is proposed that the listing status of the Company be replaced by a new holding company incorporated in the Cayman Islands by way of the Scheme.

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## LETTER FROM THE BOARD

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### REASONS FOR CHOOSING THE CAYMAN ISLANDS AS THE PLACE OF INCORPORATION OF NEWCO

The Cayman Islands, being one of the few jurisdictions recognised by the Listing Rules as an acceptable place of incorporation for overseas issuers, has been chosen as the place of incorporation of Newco. The Directors consider that the Cayman Islands is the most appropriate place of incorporation for Newco after taken into account the reasons as set out below:

- (i) the political stability, the established common law legal system and growing importance of the Cayman Islands as an international centre with an increasing number of international companies incorporated there;
- (ii) Cayman Islands is a place already familiar to investors in Hong Kong and is well known to overseas institutional investors as a reputable jurisdiction with a stable legal and political system;
- (iii) incorporation of companies under the Companies Law and issue of new shares and transfer of existing shares of such companies do not require prior monetary or ministerial approvals. Apart from the foregoing, it is cheaper to maintain a Cayman Islands incorporated company than a Bermuda incorporated company. A government fee is payable by a Cayman Islands incorporated company and a Bermuda incorporated company each year and such government fee is calculated on a sliding scale by reference to the authorised share capital of the company. The maximum government fee payable in Cayman Islands is approximately US\$2,400 whilst in Bermuda, the maximum amount can go up to US\$27,825 with an authorised share capital of US\$500,000,001 or more. Accordingly, change of domicile to the Cayman Islands is relatively time and cost efficient;
- (iv) prior to listing, a Cayman Islands incorporated company is not required to appoint auditors or file any audited accounts or hold any annual shareholders' or board meetings. Accordingly the running cost of the new holding company before completion of domicile may be saved; and
- (v) the Companies Law also provides significant flexibility on the use of share premium, on the redemption and repurchase of shares in a Cayman Islands incorporated company.

### EFFECTS OF THE SCHEME

As stated in the Explanatory Statement, it is proposed that Newco will acquire, by means of the Scheme, all the Scheme Shares in issue.

Upon implementation of the Scheme, the Company will become a wholly-owned subsidiary of Newco and the Shareholders will become shareholders of Newco. Pursuant to the Scheme, the Shareholders will receive one Newco Share for every one Share held by them at the Record Time. The principal activity of Newco will be to act as the holding company of the Group. Upon the Scheme becoming effective, the Newco Shares will be listed on the Stock Exchange by way of introduction and the listing of the Shares on the Stock Exchange will be withdrawn. The Newco Shares will be traded in board lots of 10,000 each which is the same as that for the Shares.

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## LETTER FROM THE BOARD

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The respective par values of the Shares and the Newco Shares are HK\$0.10 and HK\$0.01. The lower par value of the Newco Shares will not affect the proportion of the net assets of Newco attributable to each of the Shareholders who will become shareholders of Newco when the Scheme becomes effective.

Implementation of the Scheme will not, of itself, alter the underlying assets, liabilities, businesses, principal activities or financial position of the Group, other than payment of the expenses of approximately HK\$2.1 million relating to the Scheme. The consolidated assets and liabilities of Newco upon implementation of the Scheme will, save for such expenses, be the same as those of the Group prior to the implementation of the Scheme, and the proportionate interests of the holders of Newco Shares in Newco will be the same as the existing proportionate interests of the Shareholders in the Company. Newco Shares shall give the holders thereof the same rights and obligations as attaching to the Shares.

### WAIVER FROM THE SFC

As, technically, one of the effects of the Scheme is that the Company will be privatised, the Scheme is therefore subject to Rule 2.10 of the Takeovers Code, which imposes additional voting requirements above those imposed by law that a scheme of arrangement or capital reorganisation shall be approved by at least 75% of the votes attaching to the disinterested shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested shares; and the number of vote cast against the resolution to approve the scheme or the capital reorganisation at such meeting shall not be more than 10% of the votes attaching to all disinterested shares. The Company has obtained from the Executive a waiver from strict compliance with the requirements under Rule 2.10 of the Takeovers Code on the basis that the economic interests of all the Shareholders will not be affected as a result of the Scheme.

### SHARE OPTION SCHEMES

In view of the proposed de-listing of the Shares, the Existing Share Option Scheme will be terminated and the Newco Share Option Scheme has been conditionally adopted by Newco subject to implementation of the Scheme.

As at the Latest Practicable Date, there was no outstanding share options granted under the Existing Share Option Scheme. The Directors have no intention to grant any share options under the Existing Share Option Scheme on or prior to the EGM.

The terms of the Newco Share Option Scheme are in compliance with Chapter 17 of the Listing Rules. The Newco Share Option Scheme will take effect upon the following:

- (i) the approval of the Shareholders at the EGM;
- (ii) the Scheme becoming effective; and
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Newco Shares (representing not more than 10% of the total number of issued Newco Shares as at the date of listing on the Stock Exchange) which may fall to be issued upon the exercise of any options which may be granted under the Newco Share Option Scheme.

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## LETTER FROM THE BOARD

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Your attention is drawn to the paragraph headed “Newco Share Option Scheme” in Appendix II to this document in which the principal terms of the Newco Share Option Scheme are set out. A summary of the terms of the Newco Share Option Scheme is available for inspection as mentioned in the paragraph heads “Documents available for inspection” in Appendix V to this document.

### **GENERAL MANDATES TO ISSUE AND REPURCHASE NEWCO SHARES**

Ordinary resolutions of Newco have been passed on a conditional basis subject to the Scheme becoming effective, authorising the directors of Newco:

- (i) to allot and issue Newco Shares up to a maximum of 20% of the aggregate nominal amount of the share capital of Newco in issue upon implementation of the Scheme;
- (ii) to repurchase Newco Shares up to a maximum of 10% of the aggregate nominal amount of the share capital of Newco in issue upon implementation of the Scheme; and
- (iii) to allot and issue any further Newco Shares repurchased pursuant to the repurchase mandate referred to in (ii) above.

A statement explaining the proposed securities repurchase mandate is set out in Appendix II to this document in accordance with the requirement of the Listing Rules in respect of a repurchase of securities by a company with its primary listing on the Stock Exchange.

### **LISTING AND DEALINGS**

Application has been made to the Listing Committee of the Stock Exchange seeking approval for the listing of, and permission to deal in, the Newco Shares in issue and to be issued pursuant to the Scheme, and the Newco Shares which may fall to be issued upon the exercise of the subscription rights attached to the options which may be granted under the Newco Share Option Scheme. Upon the implementation of the Scheme, the Newco Shares will be listed on the Stock Exchange and the listing of the Shares will be withdrawn.

No action will be taken for implementing the Scheme unless and until the Directors are satisfied that the Scheme has been duly approved by the Shareholders and the Scheme will become effective upon compliance with the relevant registration requirements and the approval of the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Newco Shares has been obtained.

Subject to the granting of the listing of, and permission to deal in, the Newco Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Newco Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Newco Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.



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## LETTER FROM THE BOARD

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All certificates for the Shares in issue immediately before the Scheme becomes effective will, as from the Effective Date, be deemed to be certificates for the same number of the Newco Shares issued and allotted or transferred under the Scheme, and will continue to be effective as documents of title after the last day of the free exchange period for the Shares on the basis of one Newco Share for one Scheme Share. However, certificates for the Shares will cease to be marketable after the last day of the free exchange period for share certificates. Please refer to the paragraph headed “Share Certificates” in the Explanatory Statement for further details.

Dealings in the Newco Shares will be subject to the payment of stamp duty in Hong Kong.

All necessary arrangements have been made to enable the securities of Newco to be admitted into CCASS.

### **RECOMMENDATION**

The Directors consider that the Scheme and the adoption of the Newco Share Option Scheme are in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolutions to be proposed at the Court Meeting and the EGM for the purpose of approving and implementing the Scheme and approving the adoption of the Newco Share Option Scheme.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the Explanatory Statement and the Appendices to this document.

Yours faithfully,  
For and on behalf of the Board  
**Liu Xiao Guang**  
*Chairman*

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# EXPLANATORY STATEMENT

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*(in compliance with section 166A of the Companies Ordinance)*

## CHANGE OF DOMICILE

### INTRODUCTION

It was announced on 9 October 2003 that the Company intends to reorganise the structure of the Group by means of a scheme of arrangement pursuant to section 166 of the Companies Ordinance. Upon implementation of the Scheme, the Company will become a wholly-owned subsidiary of Newco, a company incorporated in the Cayman Islands with limited liability, and Newco will become the new holding company of the Group.

Pursuant to the Scheme, the Shareholders will become shareholders of Newco. The listing of the Shares on the Stock Exchange will be withdrawn and the Newco Shares will be listed on the Stock Exchange by way of introduction in their place.

The purpose of this document is to explain to you the effects of and the steps required to implement the Scheme. **Your attention is drawn, in particular, to the letter from the Board which sets out the reasons for the Scheme and its recommendation towards the resolutions to be proposed at the relevant meetings referred below.**

### SUMMARY OF THE SCHEME

Under the Scheme, it is proposed that on the Effective Date:

- (i) the share capital of the Company will be reduced by cancelling and extinguishing all the Scheme Shares;
- (ii) subject to and forthwith upon reduction of capital taking effect, the authorised share capital of the Company will be increased to its former amount (being HK\$120,000,000 based on the authorised share capital of the Company as at the Latest Practicable Date, or such other amount representing the authorised share capital of the Company at the Record Time) by the creation of such number of new Shares as is equal to the number of the Scheme Shares cancelled;
- (iii) the Company will apply (a) the credit of HK\$64,711,400 arising in its books as a result of the reduction of its issued share capital of HK\$64,711,400 (based on 647,114,000 Shares of HK\$0.10 each in issue as at the Latest Practicable Date and assuming that no further Shares will be issued or repurchased by the Company); or (b) the credit of such other amount representing the issued share capital of the Company as at the Record Time arising in its book of account as a result of the reduction of its share capital, in paying up in full at par for new Shares to be created which will be allotted and issued, credited as fully paid, to Newco and/or its nominees; and

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## EXPLANATORY STATEMENT

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- (iv) in consideration for the cancellation and extinguishment of their holdings of the Scheme Shares, the Shareholders will receive Newco Shares, credited as fully paid and ranking pari passu with all the Newco Shares in issue, on the following basis:

for every Scheme Share held at the Record Time ..... one Newco Share

As a result of the implementation of the Scheme, the Company will become a wholly-owned subsidiary of Newco and the Shareholders will become shareholders of Newco. The proposed board lot for trading in the Newco shares is 10,000 which is the same as the existing board lot for the Shares. The nominal value of each Newco Share is HK\$0.01 which is lower than that of the Shares. The lower nominal value of the Newco Shares will not affect the attributable interest of each of the Shareholders.

### CONDITIONS OF THE SCHEME

The implementation of the Scheme is conditional upon the satisfaction of the following conditions:

- (i) the Scheme being approved by a majority in number, representing 75% in value, of the Shareholders present and voting in person or by proxy at the Court Meeting;
- (ii) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve and implement the Scheme;
- (iii) the Court sanctioning the Scheme, with or without modification, and an office copy of the order of the Court and the minutes containing the particulars required by Section 61 of the Companies Ordinance are delivered and registered by the Registrar of the Companies in Hong Kong;
- (iv) the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Newco Shares in issue and to be issued pursuant to the Scheme and any Newco Shares which may fall to be issued upon the exercise of the subscription rights attaching to the options which may be granted under the Newco Share Option Scheme;
- (v) the obtaining of all other necessary consents or authorisations which may be required under any existing contractual arrangements or regulatory requirements; and
- (vi) there must be a minimum of 300 Shareholders at the Record Time.

It is expected that the Scheme will become effective at 9:30 a.m. (Hong Kong time) on 2 March 2005. However, unless the Scheme shall have become effective on or before 31 May 2005, or such later date as the Court may allow, the Scheme will lapse. Shareholders will be advised by press announcement of the exact date upon which the Scheme becomes effective.

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# EXPLANATORY STATEMENT

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## EFFECTS OF THE SCHEME

### Business

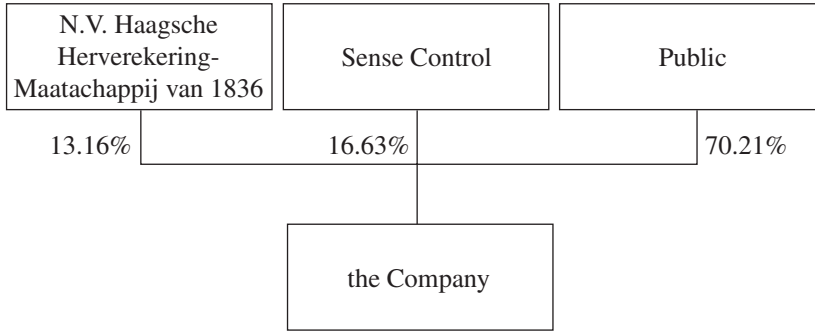
The business and management of the Group will not be changed by reason only of the implementation of the Scheme. Newco will act as the new holding company of the Group.

### Ownership and voting control

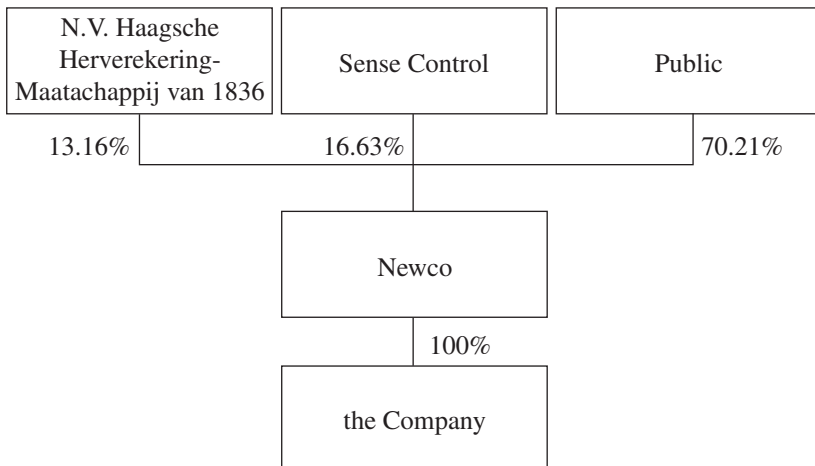
Upon implementation of the Scheme, ownership of the Group will remain as at present save that the Company and its subsidiaries will become wholly-owned subsidiaries of Newco. All the Shareholders will become shareholders of Newco.

The following diagram sets out the simplified shareholding structure of the Company immediately before and after the implementation of the Scheme:

*Immediately before the implementation of the Scheme:*



*Immediately after the implementation of the Scheme:*



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## EXPLANATORY STATEMENT

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*Note:* The Company announced on 19 April 2004 that it has accepted an application from Sense Control to subscribe for 107,600,000 new Shares. Completion of the Subscription, which is not conditional on the implementation of the Scheme, was scheduled to take place on the 30th business day after the date of delivery by the Company to Sense Control a copy of the approval of the listing of, and permission to deal in, the Subscription Shares by the Listing Committee of the Stock Exchange (the "Subscription Shares Listing Approval"). The Company duly delivered of the Subscription Shares Listing Approval on 3 June 2004 and therefore, completion of the Subscription should take place on 19 July 2004. On 20 July 2004, the Company announced that it had accepted a request from Sense Control to postpone completion of the Subscription to 19 October 2004 in order to provide more time to Sense Control for the arrangement of fund. On 28 October 2004, the Company announced that it had agreed with Sense Control to further postpone completion of the Subscription to 19 December 2004 to allow Sense Control more time to review the progress of the Scheme. Completion of the Subscription was further postponed to on or before 5 January 2005 following the Company accepted a request from Sense Control on 24 December 2004 to allow Sense Control more time to arrange the funding. A cheque for the balance of the subscription monies was received from Sense Control on the same day. Completion of the Subscription took place on 3 January 2005 and Sense Control was issued and allotted 107,600,000 Shares, representing approximately 16.63% of the enlarged issued share capital of the Company, and the shareholding interest of each of N.V. Haagsche Herverekering-Maatachappij van 1386 and the public has been diluted to approximately 13.16% and 70.21% respectively. Sense Control is beneficially and wholly owned by Mr. Lin Si Yu, a PRC citizen performing personal investments in listed securities principally in the PRC stock markets, including 中國聯合通信股份有限公司 (Shanghai stock exchange code: 600050) and 安徽銅都銅業有限公司 (Shenzhen stock exchange code: 000620), Mr. Lin is not a connected person (as defined in the Listing Rules) of the Company. As at the Latest Practicable Date, Mr. Lin was not holding any directorship role in any listed companies.

Save and except for the material differences as set out in Appendix IV to this document stating the differences of certain provisions between the Companies Ordinance and the Companies Law, the proportionate interests of the holders of the Newco Shares in Newco will be the same as the existing proportionate interests of the Shareholders in the Company and the Newco Shares will give the holders thereof substantially the same rights and obligations as attaching to the Shares.

### **Reserve**

An amount that is equal to the difference between the consolidated net asset value of the Group as at the Effective Date and the aggregate nominal value of all the Newco Shares to be allotted and issued to the Shareholders pursuant to the Scheme will be credited to the share premium account in the books of Newco. Assuming that there is no change in the unaudited consolidated net asset value of the Company during the period between 30 June 2004 and the Effective Date, and that the issued share capital of the Company as at the Latest Practicable Date remains unchanged up to the Effective Date, the amount to be credited to the share premium account in the books of Newco upon the Scheme becoming effective is estimated to be HK\$169,933,609, which represents the difference between the unaudited consolidated net asset value of the Company of HK\$176,404,749 as at 30 June 2004 and the aggregate nominal value of the Newco Shares of HK\$6,471,140 to be allotted and issued, credited as fully paid at par, pursuant to the Scheme. The actual amount to be credited to the share premium account of Newco will be determined with references to the actual consolidated net asset value of the Company as at the Effective Date and the actual number of Newco Shares to be allotted and issued by Newco to the Shareholders pursuant to the Scheme. The directors of Newco have no present intention to make distribution out of the share premium account of Newco immediately after the implementation of the Scheme. However, such distribution may be made in the future if the directors of Newco consider that such distribution is in the best interests of both Newco and its shareholders as a whole.

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## EXPLANATORY STATEMENT

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Any amount standing in the share premium account of Newco so created as a result of the implementation of the Scheme will be capitalised to the extent of HK\$100,000 to pay up the 10,000,000 existing nil-paid Newco Shares at par. Any amount standing in the credit of the share premium account of Newco can only be distributed subject to the provisions of the Companies Law and the constitutional documents of Newco, including but not limited to, the ability of Newco to pay its liabilities as they fall due in the ordinary course of business.

### **Assets and liabilities and financial position**

Implementation of the Scheme will not, of itself, alter the underlying assets, liabilities, businesses, principal activities or financial position of the Group, other than payment of the expenses relating to the Scheme which amount to approximately HK\$2.1 million. The consolidated assets and liabilities of Newco upon implementation of the Scheme will, save for such expenses, be the same as those of the Group prior to the Scheme. The audited consolidated balance sheet of the Group as at 31 December 2003, being the date to which the latest published audited financial statements of the Company were drawn up, and the unaudited consolidated balance sheet of the Company as at 30 June 2004 are set out in Appendix III to this document.

### **Directors and employees**

The board of directors of Newco comprises four executive directors, namely Messrs. Liu Xiao Guang, Cheng Bing Ren, Lawrence H. Wood and Liu Xue Min, and three independent non-executive directors, namely Mr. To Chun Kei, Dr. Kwong Chun Wai and Mr. Fung Tze Wa, all of whom are existing Directors. Details of the board of directors of Newco are set out in Appendix II to this document. There are no agreements or arrangements under which the emoluments or terms of service of any of the directors of Newco who are existing Directors will vary as a result of implementation of the Scheme nor will the terms of service of any employee of the Group be varied as a result of implementation of the Scheme.

### **Dividends**

Each financial year of Newco will end on 31 December, the same as that of the Company. It is intended that dividends on the Newco Shares will, as for the Shares, be paid in Hong Kong dollars. Dividends paid on the Newco Shares will, under the current Cayman Islands legislation, be free of any withholding tax.

### **WAIVER FROM THE SFC**

As, technically, one of the effects of the Scheme is that the Company will be privatised, the Scheme is subject to Rule 2.10 of the Takeovers Code, which imposes additional voting requirements above those imposed by law that a scheme of arrangement or capital reorganisation shall be approved by at least 75% of the votes attaching to the disinterested shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested shares; and the number of vote cast against the resolution to approve the scheme or the capital reorganisation at such meeting shall not be more than 10% of the votes attaching to all disinterested shares. The Company has obtained from the Executive a waiver from strict compliance with the requirement under Rule 2.10 of the Takeovers Code on the basis that the economic interests of all the Shareholders will not be affected as a result of the Scheme.

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## **EXPLANATORY STATEMENT**

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### **SHARE OPTION SCHEMES**

In view of the proposed de-listing of the Shares, the Existing Share Option Scheme will be terminated and the Newco Share Option Scheme has been conditionally adopted by Newco subject to implementation of the Scheme.

As at the Latest Practicable Date, there was no outstanding share options granted under the Existing Share Option Scheme. The Directors have no intention to grant any share options under the Existing Share Option Scheme on or prior to the EGM.

Your attention is drawn to the paragraph headed “Newco Share Option Scheme” in Appendix II to this document in which the principal terms of the Newco Share Option Scheme are set out.

### **GENERAL MANDATES TO ISSUE AND REPURCHASE NEWCO SHARES**

The Company in its capacity as the sole legal and beneficial owner of Newco has passed ordinary resolutions on a conditional basis subject to implementation of the Scheme, granting to the directors of Newco general mandates similar to those presently held by the Directors to allot, issue and repurchase Newco Shares. A statement explaining the securities repurchase mandate is set out in Appendix II to this document in accordance with the requirement of the Listing Rules in respect of a repurchase of securities by a company with its primary listing on the Stock Exchange.

### **MEMORANDUM AND ARTICLES OF ASSOCIATION OF NEWCO**

As a normal practice in the Cayman Islands, the objects of Newco, as contained in its memorandum of association, are unrestricted and Newco shall have the power and authority to carry out any object not prohibited by any law as provided by Section 7(4) of the Companies Law. Newco will however, as an exempted company, be restricted by its memorandum of association from trading in the Cayman Islands with any person, firm or corporation except in furtherance of the business of Newco carried on outside the Cayman Islands.

Newco has conditionally adopted a new set of articles of association subject to implementation of the Scheme. The new set of articles of association has replaced the one initially adopted by Newco upon incorporation which contained minimal provision for operation. The new articles of association are in compliance with the relevant requirements of the Listing Rules.

A copy of the proposed new articles of association of Newco and a letter of advice summarising certain aspects of the Cayman Islands company law, which relate to, among others, the incorporation, constitution, operation and the share capital of Newco, the requirements relating to special resolutions, public offers, share certificates, dividends and distribution, management and administration, directors’ duty, register of directors and officers, investigation of the affairs of Newco, protection of minorities, public records of Newco, register of members, accounting and auditing requirements, liquidation, taxation, stamp duty on transfers and exchange control, issued by Conyers Dill & Pearman, Cayman, the legal advisers on the Cayman Islands law to Newco, will be available for inspection as referred to in Appendix V to this document. The advice letter is not intended to be exhaustive but merely to provide brief details and information which may be applicable to Newco.

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## EXPLANATORY STATEMENT

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### LEGAL CONSIDERATIONS

The Company was incorporated in Hong Kong whereas Newco was incorporated in the Cayman Islands. The laws of the Cayman Islands, including the Companies Law, will therefore apply to Newco. As long as Newco has a place of business in Hong Kong or the Newco Shares are listed on the Stock Exchange, certain laws of Hong Kong including Hong Kong legislation and common law principles, particularly those governing overseas companies, and the Listing Rules as well as the Takeovers Code will also be applicable to Newco.

The differences between the laws of Hong Kong and those of the Cayman Islands may result in the differences in practicality and cost to the shareholders of Newco of enforcing their rights between the two jurisdictions if such steps become necessary. On the whole, however, with the exception of the statutory remedy under section 168A of the Companies Ordinance relating to the winding up of a company in cases of unfair prejudice, which is not available under the Companies Law, the other remedies for shareholders' protection such as the winding up of a company on the just and equitable ground or the institution of a derivative action may be commenced in Hong Kong against Newco. Nevertheless, the Shareholders should be aware of the application of the Cayman Islands law to Newco and the time and cost implications relating to a winding up proceeding against Newco which is based on common law remedies. Shareholders should also be aware of the fact that, however remote, circumstances may arise in which Newco may cease to be subject to the laws of Hong Kong or to the Listing Rules if the Newco Shares are de-listed from the Stock Exchange.

By the rules applicable to conflict of laws in Hong Kong, the capacity of a corporation to enter into any legal transaction is governed both by the constitution of the corporation and by the law of the country which governs the transaction. In addition, all matters concerning the constitution of a company, which include its internal management involving the exercise of powers by its officers, are also governed by the law of its place of incorporation. Due to the application of English common law principles in the Cayman Islands and the substantial similarities between the Companies Law and the Companies Ordinance, the Board has been advised that in general, that part of Cayman Islands law applicable to these issues are not dissimilar to that in Hong Kong.

Generally, under conflict of laws principles in Hong Kong, the law applicable to the fixed assets of a company will be that of the country in which they are situated. The law applicable to business contracts is subject to a number of different factors, including any agreement between the parties as to the applicable law. For commercial purposes, there can be advantages or disadvantages according to the applicable law in respect of any given asset or contract. When causing Newco to enter into such contracts, as required by Cayman Islands law, the directors of Newco will have to act in good faith in the interests of Newco and its shareholders as a whole. Please refer to Appendix IV to this document for a summary of the differences of certain provisions between the Companies Ordinance and the Companies Law.

**Shareholders are advised to consult their own legal advisers if they are in any doubt as to the effect of Cayman Islands corporate law on their rights in the light of circumstances peculiar to them.**



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## EXPLANATORY STATEMENT

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### LISTING AND DEALINGS

Application has been made to the Listing Committee of the Stock Exchange seeking approval for the listing of, and permission to deal in, the Newco Shares in issue and to be issued pursuant to the Scheme, and the Newco Shares which may fall to be issued upon the exercise of the subscription rights attached to the options which may be granted under the Newco Share Option Scheme. Application will be made to the Listing Committee for the withdrawal of the listing of the Shares, subject to the Scheme becoming effective.

Upon the Scheme becoming effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Newco Shares in issue and to be issued under the Scheme will be listed on the Stock Exchange. Dealings in the Newco Shares are expected to commence on 2 March 2005 and the Shares are expected to cease trading and withdraw from listing after 4:00 p.m. on 1 March 2005.

No action will be taken for implementing the Scheme unless and until the Directors are satisfied that the Scheme has been duly approved by the Shareholders and the Scheme will become effective only upon compliance with the relevant registration requirements and the approval of the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Newco Shares has been obtained.

Subject to the granting of the listing of, and permission to deal in, the Newco Shares on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Newco Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Newco Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Newco Shares will be subject to the payment of stamp duty in Hong Kong.

All necessary arrangements have been made to enable the securities of Newco to be admitted into CCASS.

### SHARE CERTIFICATES

All certificates for Shares in issue immediately before the Scheme becomes effective will, as from the Effective Date, be deemed respectively to be certificates for the same number of Newco Shares issued and allotted or transferred under the Scheme, and will continue to be effective as documents of title after the last day of the free exchange period for the Newco Shares on the basis of one Newco Share for one Scheme Share. However, certificates for the Shares will cease to be marketable after the last day of the free exchange period for share certificates.

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## EXPLANATORY STATEMENT

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On and after the Effective Date, share certificates issued following the registration of transfers will be issued in the name of Newco in respect of the Newco Shares. Shareholders may for a period of four weeks after the Effective Date (i.e. the period from Wednesday, 2 March 2005 to Tuesday, 29 March 2005, both days inclusive), submit to the share registrar of Newco in Hong Kong, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, their certificates in respect of the Shares for exchange, at the expense of Newco, for certificates in the name of Newco in respect of the same number of Newco Shares. Shareholders will receive share certificates in the name of Newco within 10 business days from the submission of the existing share certificates in the name of the Company during the above period.

After four weeks from the Effective Date (i.e. after Tuesday, 29 March 2005), Shareholders submitting share certificates in the name of the Company to be exchanged for share certificates in the name of Newco will have to bear the cost of the issue of new certificates in the name of Newco, which is presently HK\$2.5 per certificate. Unless otherwise requested by the relevant holder, certificates in respect of Newco Shares will, so far as practicable, be issued in board lots of 10,000 Newco Shares, which is the same as for the Shares. The certificates for the Newco Shares will be issued in registered form.

Certificates for the Newco Shares will be **PINK** in colour.

**Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.**

### REGISTRATION PROCEDURES

Under the Companies Law, Newco, as an exempted company, may maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. A branch register of members of Newco will be maintained in Hong Kong by Standard Registrars Limited, being the Newco's branch registrar in Hong Kong. Unless the directors of Newco otherwise agree, all transfers of and other documents of title to Newco Shares must be lodged for registration with, and registered by, Newco's share registrars in Hong Kong.

A valid instrument of transfer relating to a transfer of Shares effected before the Effective Date which is not registered in the register of members of the Company before that date will be deemed to be a valid instrument of transfer in respect of the corresponding number of Newco Shares on or before the Effective Date.

**Shareholders are recommended to consult their professional advisers if they are in any doubt as to the above procedures.**

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## EXPLANATORY STATEMENT

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### TAXATION, STAMP DUTY AND EXCHANGE CONTROL

#### **Newco**

##### *(i) Taxation*

Pursuant to Section 6 of the Tax Concession Law (1999 Revision) of the Cayman Islands, Newco has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profit or income or gains or appreciation shall apply to Newco or its operations; and
- (2) in addition, that no tax to be levied on profits, income gains of appreciation or which is in the nature of estate duty or inheritance tax shall be payable by Newco,
  - (i) on or in respect of the shares, debentures or other obligations of Newco; or
  - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of 20 years from 12 August 2003.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to Newco by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

The Directors have been advised that implementation of the Scheme will not, of itself, result in Newco or the Group incurring a greater liability for tax than would have been incurred by the Group had the Scheme not been implemented. It is emphasised that the taxation implications of the Scheme are a matter for the Shareholders themselves and not for the Company, Newco, their respective directors or any other parties involved in the Scheme, none of whom accepts any responsibility for any taxation effect on or liabilities of the Shareholders arising from the implementation of the Scheme, other than in respect of the annual government fee payable to the Cayman Islands government by Newco.

##### *(ii) Stamp Duty*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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## EXPLANATORY STATEMENT

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### *(iii) Exchange Control*

There are no exchange control regulations or currency restrictions in the Cayman Islands.

There are no foreign exchange controls in force in Hong Kong, and the Hong Kong dollar is freely convertible into other currencies.

Since 17 October 1983, the Hong Kong dollar has been linked to the US dollar. The link is maintained through the mechanism of certificates of indebtedness which are used by the three Hong Kong banknote-issuing banks as cover for banknote issues. The certificates are issued and redeemed by the Hong Kong Exchange Fund only against payment in United States dollars at a fixed exchange rate of HK\$7.80 to US\$1.00.

On 5 September 1998, the government of Hong Kong announced seven technical measures to improve the way the linked exchange rate is managed. These measures came into effect on 2 September 1998. These measures are intended to strengthen the currency board arrangement and to stabilise unusual local interest rate movements. The measures include the provision by the Hong Kong Monetary authority of a convertibility undertaking to all licensed banks in Hong Kong to convert Hong Kong dollars in their clearing accounts into United States dollars at a fixed rate of HK\$7.75 to US\$1.00.

### **Shareholders**

#### *(i) The Cayman Islands*

The implementation of the Scheme will not, of itself, have any Cayman Islands tax consequences. Dealings in the Newco Shares will not be subject to Cayman Islands stamp duty.

#### *(ii) Hong Kong*

The Directors have been advised that, under current legislation, implementation of the Scheme is not expected, of itself, to have any adverse Hong Kong tax consequences except that those persons who are classified for tax purpose as securities dealers may be subject to profits tax in respect of any deemed gain resulting from the substitution of Newco Shares for Shares pursuant to the Scheme.

Dealings in Newco Shares registered on Newco's Hong Kong register of members will be subject to Hong Kong stamp duty.

#### *(iii) General*

Shareholders whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubts as to the taxation implications of the Scheme and, in particular, whether the substitutions and the receipt of the Newco Shares for the Shares would make such Shareholders liable to taxation in Hong Kong or in other jurisdictions, as the case may be. It is emphasised that none of the Company, Newco, any of their respective directors and any other person or party involved in the Scheme accepts responsibility for any tax effects on, or liability of, the Shareholders in connection with the Scheme in Hong Kong or any other jurisdiction.

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## EXPLANATORY STATEMENT

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### RECOMMENDATION

The Directors consider that the Scheme is in the best interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Scheme.

### ACTIONS TO BE TAKEN

Forms of proxy for use at the Court Meeting and the EGM are enclosed. The white form of proxy is for use at the Court Meeting and the yellow form of proxy is for use at the EGM.

Shareholders are requested to complete and return the white and yellow forms for proxy in accordance with the instructions printed thereon, whether or not they proposed to attend the relevant meetings in person. It is requested that forms of proxy be returned as soon as possible and in any event not less than 48 hours before the respective times appointed for the meetings. The white form of proxy for the Court Meeting may alternatively be handed to the chairman of the Court Meeting at the meeting.

Completion and return of the forms of proxy will not preclude the Shareholders from attending and voting in person at the relevant meeting. In the event that a Shareholder attends a meeting, such form of proxy previously lodged will be deemed to have been revoked.

**HISTORY**

The Company is an investment company incorporated in Hong Kong with limited liability on 9 February 1993. The Shares have been listed on the Stock Exchange since 10 May 1994 by way of placing of 500,000,000 Shares.

The Company made its first investment in the PRC by establishing two joint ventures in Beijing to engage in electronic and electrical instrument manufacturing and pipe manufacturing in 1994. In 1995, the Company acquired 18% interest in Beijing Asia Pacific First Star Communications Technology Company Limited, a nationwide radio paging service provider in the PRC. The Company invested HK\$92 million in Skyworth Digital Holdings Limited, a manufacturer of audio-visual products whose shares are listed on the Stock Exchange, in 1999. In 2002, the Company began to invest in the property sector in Beijing through the establishment of China Property Development (Holdings) Limited. Details of the Company's present investment portfolio are set out in the paragraph headed "Investment portfolio" below.

**INVESTMENT OBJECTIVES AND POLICIES**

The Company's principal investment objective is to achieve long-term capital appreciation by investing primarily in companies or other entities with significant assets, investments, production activities, trading or other business interests in the PRC, in particular in Beijing, or which are expected to derive at least half of their revenue or profits from the PRC, in particular, from their operations in Beijing. Subject to the restrictions referred to below these companies or entities may include those with a listing on securities market (including securities markets in Hong Kong and the PRC).

Please refer to page 39 of this document for the investment objectives and policies of Newco.

**INVESTMENT RESTRICTIONS**

For so long as the Company retains listed as an investment company under Chapter 21 of the Listing Rules:

- (i) the Company itself or through its wholly-owned subsidiaries will not either on its own or in conjunction with any connected person take legal, or effective, management control of underlying investments and in no event, will the Company itself or through its wholly-owned subsidiaries own or control more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) of the voting rights in any one company or body;
- (ii) a reasonable spread of investments will be maintained by the Company in order to reduce the influence of any downturn in any particular sector. In general, the value of its holding of each investment will not exceed 20% of the Company's net assets at the time when such investment is made;
- (iii) the Company will not make any investment (including investment in the form of joint investment holdings with other parties) if such investment would result in the Company incurring unlimited liability, other than through a wholly-owned intermediate investment holding company with limited liability;

- (iv) the Company will not invest in options, warrants, commodities, futures contracts and precious metals, except for options and warrants relating to equity investments or for hedging purposes in respect of foreign exchange or stock market movements; and
- (v) the Company will not make short sales or deals on margin except for hedging purposes in respect of foreign exchange or stock market movements.

Please refer to pages 39 to 40 of this document for the investment restrictions on Newco.

**DISTRIBUTION POLICY**

All income received by the Company after deducting expenses and provisions for the diminution in value of investments, if any, will, to the extent permitted by law, normally be paid out as dividend. Any surplus arising from the realisation of investments generally will not be available for distribution to shareholders of the Company and will be reinvested. A portion of the distributable income may, however, at the discretion of the Board, be retained for future investment.

**BORROWING POWERS AND POLICY**

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party, provided that the aggregate amount of borrowings of and the value of the security provided by the Company from time to time shall not at any time exceed 25% of the net assets of the Company without the previous sanction of an ordinary resolution of the Company in general meeting. These powers, as with other provisions in the articles of association of the Company, may be altered by the Company in general meeting.

Please refer to page 40 of this document for the borrowing powers and policy of Newco.

**FOREIGN EXCHANGE POLICY**

It is expected that most of the Company's investment will be denominated in Renminbi. It is not currently possible to hedge Renminbi against the Hong Kong dollar on commercial terms and as the Company's investments are expected to be of a long-term nature, it is not the Directors' present intention to hedge the Company's Renminbi-denominated investments. The Directors reserve the right, however, to enter into arrangements to hedge currency risks, if in their opinion such arrangements become desirable and practicable in the future.

**INVESTMENT MANAGER**

The Investment Manager (formerly known as ING Baring Private Equity (China) Limited and ING Luxfund Management (Hong Kong) Limited) is a company incorporated in Hong Kong on 7 December 1993 with limited liability and a deemed licensed corporation for types 4, 6 and 9 of the regulated activities under the SFO.

The responsibilities of the Investment Manager is to seeking out, identifying, reviewing and evaluating investment and divestment opportunities, executing investment and divesting decisions, and monitoring investments of the Company on a daily basis. It will be the responsibility of the Board to formulate the Company's overall investment strategy and guidelines in accordance with the investment objectives and policies of the Company. Neither the Board nor the Investment Manager can make investment decision on its own. Proposal of possible investments or divestments will first be assessed by the Investment Manager in accordance with the investment policies of the Company and the guidelines issued from the Board from time to time. Investment proposals reviewed and recommended by the Investment Manager together with the interest of Investment Manager in the proposals, if any, will be forwarded to the Board for its approval.

Under an investment management agreement made between the Company and the Investment Manager dated 25 April 1994, the Investment Manager agreed to provide investment management services in relation to the investment portfolio of the Group for a period of three years from the date of the agreement. The Investment Manager, in accordance with the terms of the agreement as revised by a supplemental agreement dated 22 May 1998 and a second supplemental agreement dated 7 January 1999, is entitled to a fee calculated at the rate of 2% per annum of the net asset value of the Company as at each Quarter Day, payable quarterly in advance. The Investment Manager is also entitled, with effect from the financial year ended 31 December 1999, to receive an incentive fee calculated at (i) 10% of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10%; (ii) 15% of the realised profit if the realised profit per issued share exceeds 10% but is below 15%; or (iii) 20% of the realised profit if the realised profit per share equals or exceeds 15%. The agreement has no fixed term. It is terminable by either the Investment Manager or the Company giving to the other party not less than six months' prior notice of termination. For each of the three years ended 31 December 2003, the total amount of the investment management fee paid to the Investment Manager was approximately HK\$7.4 million, HK\$4.5 million and HK\$2.4 million, respectively.

**ADMINISTRATOR AND CUSTODIAN**

Under an agreement between the Company and Internationale Nederlanden Capital Markets (Hong Kong) Limited ("INGCM") dated 25 April 1994, INGCM agreed to provide administrative services to the Company including, inter alia, assisting the Company in the preparation of its annual accounts and interim statements, providing administrative assistance in matters relating to compliance with all relevant laws, rules and regulations of Hong Kong, the PRC and any other jurisdiction in or with which the Company has an interest or dealings, coordinating the despatch of reports, communications, notices or circulars required to be delivered to the directors and shareholders of the Company or other third parties. The agreement was signed for an initial term of one year from the date of the agreement, which term might be renewed for a further term of two years subject to the agreement between the parties to the agreement. The agreement was assigned from INGCM to ING Management (Hong Kong) Limited (the "Administrator") with effect from 1 November 1994. Pursuant to the terms of a supplemental agreement entered into between the Company and the Administrator dated 25 July 1995, the term of appointment of



the Administrator was renewed for a further term of two years commencing on 25 April 1995, which term might be renewed for a further term of two years subject to agreement between the Company and the Administrator. By a further supplemental agreement dated 22 May 1998, the appointment of the Administrator was renewed with no fixed term but was subject to termination by either the Administrator or the Company giving to the other party not less than six months' prior notice of termination. For each of the three years ended 31 December 2003, the total amount of administration fee paid to the Administrator was approximately HK\$690,000 per year.

The Administrator was appointed by the Company as its custodian to hold assets with effect from July 2003. The Administrator is responsible for, inter alia, the safe custody of the Company's assets and documents of title; collecting income and other payments with respect to the assets and other payments due to the Company; and delivery of any assets which are to be sold. The Administrator is entitled to receive a fixed fee of HK\$5,000 per month, excluding any out-of-pocket expenses, for the provision of custodian services. For the year ended 31 December 2003, the Administrator received HK\$30,000 under the custodian appointment letter dated 31 March 2003.

Although the Investment Manager and the Administrator are wholly-owned subsidiaries of ING Groep N.V., the Investment Manager and the Administrator operate their business independently and have no common directorship. The Directors consider that it is a commercial decision to appoint the Investment Manager and the Administrator as they provide competitive fees.

#### **PRC INVESTMENT ADVISER**

Under an agreement between the Company, the Investment Manager and Beijing Guanwei Investment & Management Adviser Corporation (the "PRC Investment Adviser") dated 16 April 1998, the PRC Investment Adviser agreed to provide consultancy and advisory services in relation to the Company's Investments, in particular, specialised advice on matters in relation to the PRC, to the Company and assisting the identification of investment opportunities for the Investment Manager to consider. In addition, the PRC Investment Adviser with its expertise in local regulatory and economic environment and business practice agreed to assist the Investment Manager in implementing investment decisions and in monitoring investments in the PRC. The PRC Investment Adviser was entitled to receive a consultancy fee payable quarterly in advance at the rate of 0.10% per annum on the net asset value of the Company as at each Quarter Day, and a fee for sourcing and monitoring investment projects calculated at the rate of 0.65% per annum of that portion of the Company's net asset value at each quarter day which was attributable to the investment projects entered into by the Company and which were introduced by the PRC Investment Adviser. For each of the three years ended 31 December 2003, the total advisory fee paid to the PRC Investment Adviser was approximately HK\$1,043,000, HK\$770,000 and HK\$357,000, respectively. A notice of termination of the agreement was served to the PRC Investment Adviser and became effective on 25 August 2003. As at the Latest Practicable Date, the Company did not retain any PRC investment adviser nor advisory committee and there is no intention for Newco to retain such adviser after the implementation of the Scheme.

## INVESTMENT PORTFOLIO

As at the Latest Practicable Date, the Company had the following investments:

Name of enterprise (as defined below)	Approximate total investment of investee company 'million	Approximate total issued capital of investee company 'million	Approximate percentage of equity interest attributable to the Group %	Approximate cost 'million	Approximate net assets attributable to the Group 'million	Directors' valuation as at the Latest Practicable Date 'million
Far East	RMB173.0	RMB151.9	26.0 (Note 1)	HK\$47.8	RMB23.3 (Note 2)	RMB23.3
Skyworth	N/A	HK\$225.2	0.4	HK\$9.0	HK\$20.5 (Note 3)	HK\$27.3 (Note 4)
CPDH	N/A	N/A (Note 5(i))	30.0	US\$10.0	US\$7.8 (Note 5(ii))	US\$7.8
TYG Zone F Project (Note 6)	N/A	RMB60.0	15.0	HK\$35.0	N/A	HK\$35.0
North Star (Note 7)	US\$15.0	US\$11.3	28.0	US\$3.2	Nil	Nil
APFS (Note 8)	US\$29.8	US\$29.8	18.0	HK\$60.8	Nil	Nil
ChinaGo (Note 8)	US\$9.0	US\$0.1	10.4	HK\$23.4	Nil	Nil

## Notes:

- The Group's equity interest in Far East has been reduced from 35% to 26% upon the transfer of the legal title to Beijing Capital pursuant to the agreement entered into between the Group and Beijing Capital in March 2004 in relation to the disposal of the 9% equity interest by the Group to Beijing Capital. However, the Group is still accounting for 35% of the equity interest in Far East and is sharing 35% of Far East's profits or losses as no consideration in relation to such disposal has been received and the agreement has not been completed. In the event that the consideration is not fully settled by Beijing Capital at the end of the five year period, the equity interest in relation to the unpaid portion of the consideration will be transferred back to the Group in accordance with the provisions of the agreement.
- Based on the amount included in the unaudited interim financial report of the Group as at 30 June 2004.
- Based on the closing price of the shares of Skyworth of HK\$2.05 as quoted on the Stock Exchange on 30 June 2004.
- Based on the closing price of the shares of Skyworth of HK\$2.725 as quoted on the Stock Exchange on 30 November 2004, being the last trading day prior to the suspension of trading since 9:44 a.m. on 30 November 2004.
- The issued capital of CPDH was US\$52 as at 30 June 2004.
  - Based on the unaudited management accounts as at 30 June 2004.
- In October 2003, the Group paid HK\$35 million as an investment deposit to acquire a 15% equity interest in a joint venture entity in the PRC which is engaged in the development of the TYG Zone F Project. Completion of the investment is subject to approval by the local authorities in Beijing.

7. Full provision was made by a resolution in a meeting of the Board in 1998.
8. Full provision was made by a resolution in a meeting of the Board in April 2003.

### **Beijing Far East Instrument Co., Ltd (“Far East”)**

Far East is a sino-foreign equity joint venture enterprise formed in the PRC for a term of 20 years from 1994 and is principally engaged in producing scientific measuring and industrial control equipment including resistance testers, voltage meters and electric amphere meters. It is one of the leading instrument manufacturers in the PRC. The Group’s joint venture partner was Beijing Far East Instrument Company (北京遠東儀表公司), which was holding the remaining 65% equity interest in Far East at the time when the investment was made.

In March 2002, the Group entered into a conditional agreement to sell 9% (the “Disposal Interest”) out of its 35% equity interest in Far East to Beijing Capital, an independent party which is not a connected person (as defined under the Listing Rules) of the Company, for a consideration of approximately RMB14 million (the “Disposal”). The consideration is payable in five installments over a period of five years commencing from the date of signing of the agreement. According to an legal opinion obtained by the Company, the agreement constitutes legal, valid and binding obligation of Beijing Capital and enforceable against the Disposal with its terms under the PRC laws. Beijing Capital had also acquired a further 16% equity interest in Far East from Beijing Far East Instrument Company in March 2002. The introduction of Beijing Capital was intended to help Far East to enter the intelligent building control systems business. Intelligent building control systems are integrated computerised systems managing various systems such as security monitoring systems, alarm systems and cable television systems, and electrical systems for the property management sector. Since the signing of agreement in March 2002, Beijing Capital has introduced several business referrals to Far East although these business opportunities have not been materialised.

Based on an inquiry with Beijing Administration for Industry and Commerce (北京市工商行政管理局) (“BAIC”) performed by the Company in November 2004, Far East submitted an application to BAIC in respect of the above change of its shareholding on 6 June 2002. Registration of the change of its shareholders was completed and a new business certificate of enterprise was issued to Far East by BAIC on 10 June 2002. The above change of shareholding in BAIC has been effective and Far East is now owned as to 49% by Beijing Instrument Industry Holding Co. Ltd. (北京京儀控股有限責任公司), a wholly-owned subsidiary of Beijing Far East Instrument Company, 26% by Pacific Equity Venture Inc., a wholly-owned subsidiary of the Company, and 25% by Beijing Capital.

As at the Latest Practicable Date, Beijing Capital had not settled any of the five installments in respect of the Disposal Interest. However, as the agreement does not specify on the amount of each of the five installments or when will each installment become due and payable, the Group has not recorded any due portion in its financial statements. Accordingly, so long as the relevant parties comply with the terms and conditions of the agreement, the Directors consider that no obligations under the agreement have been breached. As at the Latest Practicable Date, none of the terms and conditions of the agreement were breached. In the event that the consideration is not fully settled at the end of the five-year period, the equity interest in relation to any unpaid portion of the consideration will be transferred back to the Group in accordance with the provisions of the agreement and the Directors will seek for other opportunities to reduce the Group’s interest in Far East.

At the time of preparation of the Company's 2003 financial statements, there was uncertainty over the settlement of the consideration as Beijing Capital had not made any payment and did not indicate the payment schedule of the consideration. Furthermore, the agreement provides that the Company will continue to share profits or losses of Far East attributable to the equity interest in respect of which consideration has not been paid by Beijing Capital. In other words, the Company will continue to enjoy the economic benefit of the Disposal Interest until such time the consideration is paid by Beijing Capital. Since no payment was made by Beijing Capital up to 31 December 2003, the Company shared 35% of the profit of Far East for the year ended 31 December 2003 in accordance with the terms of the agreement. A final dividend of approximately RMB2.9 million was declared by Far East in respect of the year ended 31 December 2003, of which RMB1 million was payable to the Company, representing 35% of the total dividend. In view of the above, the Directors consider that notwithstanding the legal title of the Disposal Interest is registered in the name of Beijing Capital, it is not appropriate to recognise the profit on the disposal of the Disposal Interest in the Company's 2003 financial statements. This treatment has been discussed with and agreed by the Company's auditors. Relevant disclosure in respect of the Disposal will be made in the annual report(s) of the Company or Newco, as the case may be, for the year ended 31 December 2004 and thereafter so long as the Company or Newco remains interested in the equity capital of Far East.

The Company was advised by its PRC legal advisers that the legal title in respect of the Disposal Interest, including the relevant voting power in Far East related thereto, has been transferred to Beijing Capital since completion of the registration of change of shareholders in June 2002. The Directors consider that sufficient arrangements have been made in place to protect the Company's interest under the Disposal on the bases that (i) the Company will continue to share the results of Far East in respect of the unpaid portion of the Disposal Interest; and (ii) in the event that the consideration is not fully settled at the end of the five years payment period, the equity interest in relation to any unpaid portion of the Disposal Interest will be transferred back to the Group in accordance with the provisions of the agreement.

In March 2003, the board of Far East resolved to enter into environmental protection business. Far East joined hand with Shi Jia Zhuang Da Yu Environmental Protection Engineering Co., Ltd. (石家莊大禹環保工程有限公司), an environmental protection engineering company in Shi Jia Zhuang (石家莊) and an independent third party which is not a connected person (as defined in the Listing Rules) of the Company, to venture into the new business and had paid RMB4.5 million for 45% shareholding in the engineering company which is a limited liability company incorporated in the PRC. Since its establishment in May 2003, the joint venture has obtained several provincial water treatment projects near Shi Jia Zhuang. The ultimate beneficial owners of Shi Jia Zhuang Da Yu Environment Protection Engineering Co., Ltd. (石家莊大禹環保工程有限公司) are also not connected persons (as defined in the Listing Rules) of the Company.

Based on the management accounts as at 30 June 2004, the turnover of Far East in the first half year of 2004 increased by 19% as compared to the same period in last year. Due to the change of products mix, Far East discontinued the production of certain series of products, including pressure transmitters and furnace safeguard supervisory systems, and moved into the business of intelligent building control systems. Inventories of the discontinued products stored for over two years had become obsolete and accordingly provision was made which in turn had a negative impact on the net assets of Far East. Accordingly, the Company shared the loss of approximately HK\$2.3 million for the six months ended 30 June 2004.

### **Skyworth Digital Holdings Limited ("Skyworth")**

Skyworth is a company whose shares are listed on the Main Board of the Stock Exchange (Stock code: 0751). It designs, manufactures and sells color television sets primarily in the PRC since 1992 and is one of the largest audio-visual manufacturers in the PRC. In recent years, Skyworth has explored and diversified its businesses into multimedia and high-end display technology.

According to the Skyworth's annual report for the year ended 31 March 2003 and the interim report for the six months ended 30 September 2003, the net profit for the year ended 31 March 2003 and the six months ended 30 September 2003 was approximately HK\$213.58 million and HK\$80.89 million respectively, and the consolidated net assets value was approximately HK\$2,310.79 million and HK\$2,297.66 million as at 31 March and 30 September 2003. The net profit for the year ended 31 March 2004 was approximately HK\$341.91 million and the consolidated net assets were approximately HK\$2,571.31 million in accordance with the annual report of Skyworth for the year ended 31 March 2004.

The Group received an interim dividend of approximately HK\$0.21 million or HK\$0.005 per share in January 2003 and a final dividend of approximately HK\$1.93 million or HK\$0.045 per share in August 2003. In 2004, the Group received an interim dividend of approximately HK\$0.46 million or HK\$0.02 per share in February 2004 and a final dividend of approximately HK\$0.55 million or HK\$0.055 per share from Skyworth in September 2004.

Trading in the shares of Skyworth on the Stock Exchange has been suspended from 9:44 a.m. on 30 November 2004. According to the announcement of Skyworth dated 22 December 2004 (the "Skyworth Announcement") in relation to, inter alia, an update on its status, the board of directors of Skyworth confirmed the recent investigation undertaken by the Independent Commission Against Corruption. It was stated in the Skyworth Announcement that Skyworth noted the allegations included in recent press release of the Independent Commission Against Corruption are general and had not to-date resulted in any specific charges being brought against any persons. It was also reported in the Skyworth Announcement that Skyworth has undertaken to the Stock Exchange to look into these matters so far as practicable and consider what steps are feasible and appropriate to be taken and trading in the shares of Skyworth will remain suspended until further notice.

#### **China Property Development (Holdings) Limited ("CPDH")**

In April 2002, the Group invested US\$10 million in a wholly-owned investment holding company, CPDH. It is a vehicle to bring in strategic co-investors to invest in a property development project in Beijing and has no other investment. During the year 2002, CPDH made a share placement to China Property Development Fund Limited and reduced the Group's equity interest in CPDH to 30%. With extended capital injection, CPDH acquired an 80% interest in Beijing Pacific Palace Real Estate Development Co. Ltd. ("Pacific Town Project").

The Pacific Town Project is a high-end residential development project currently comprising four development phases and is planned for mixed development with high-rise apartments and town houses. The project is located at Xiaoyun Overpass, which is east of the Fourth Ring Road, Chaoyang District with planned total gross floor area of 430,750 square metres. The project obtained its planning approval on 2 July 2003. In November 2003, the project received the construction land use planning permit and in December 2003, it was granted the resettlement permit for the phase I site. Resettlement work for phase I was completed in the first half of 2004 and the construction works began in early June 2004. On 28 August 2004, the official pre-sale program was launched. The entire engineering work for phase I is expected to be completed by the end of 2005 and occupation will commence immediately thereafter.

**Taiyanggong Zone F Project (“TYG Zone F Project”)**

In October 2003, the Group paid HK\$35 million as an investment deposit to acquire a 15% equity interest of the TYG Zone F Project. No further amount will be payable by the Group for the acquisition of such 15% equity interest of the TYG Zone F Project. The TYG Zone F Project is a 413,000 square metres residential development project targeting the middle class sector. It is located at the Taiyanggong new district and is between the Northeast Third and Forth Ring Road in Beijing, the PRC. It comprises three development phases. Phase I development of the TYG Zone F Project is expected to be completed and become ready for occupation by the end of 2004. Development works for phase II involve resettlement and relocation, construction and presale. Construction works for phase II started in March 2004 and its presale commenced in June 2004.

To avoid any delay to the phase II development works as a result of the change in shareholding structure of the joint venture project development company, submission of joint venture document to the local authority for revision of the shareholder information was delayed pending completion of the approval procedures for the phase II development works of the project. The revised joint venture contract and the articles of association have been submitted to the Beijing Industry and Commerce Bureau for approval.

**Beijing North Star Hyundai Pipe Company Limited (“North Star”)**

North Star is a sino-foreign equity joint venture company formed in the PRC for a term of 20 years and is principally engaged in the manufacture and sale of composite polyester water pipes under licence from HOBAS, which is an Austrian pipe manufacturer. In view of the unsatisfactory performance of North Star, the Board decided to adopt a prudent approach by making a full provision for the Company’s investment in North Star of US\$3.2 million in 1998. The Board do not expect to recover any of the Company’s investment in North Star.

**Beijing APFS Communications Technology Co. Ltd. (“APFS”)**

APFS is a sino-foreign equity joint venture company formed for a term of 20 years from 1995 to 2015. APFS is engaged in providing nationwide paging services in the PRC. An impairment loss of approximately HK\$49.2 million was made in 2001. In view of the continued decline of the telecommunication sector and the severe competition from mobile phone operators as a result of the increasing affordability of mobile phones in recent years, the Board considered that this investment should be fully written off. As such, full provision of the investment of HK\$60.8 million was made by a resolution in a meeting of the Board in April 2003. The Board do not expect to recover any of the Company’s investment in APFS. So far as the Directors are aware of, APFS maintained minimal operation in 2003.

**ChinaGo Limited (“ChinaGo”)**

ChinaGo Limited is a company incorporated in the Caymans Islands in March 2000 and operates mainly in the PRC. ChinaGo is an information technology services provider specialising in internet email services and software solutions. In view of the continued decline of the information technology sector, the Board considered that the investment in ChinaGo should be written off. As such, full provision of the investment of HK\$23.4 million was made by a resolution in a meeting of the Board in April 2003.

**SHARE CAPITAL**

As at the close of business on the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

*Authorised:*

<u>1,200,000,000</u> Shares	<u>HK\$120,000,000</u>
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*Issued and fully paid:*

<u>647,114,000</u> Shares	<u>HK\$64,711,400</u>
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All of the issued Shares rank pari passu in all respects with each other including entitlement to dividends, voting rights and return of capital.

**EXISTING SHARE OPTION SCHEME**

As at the Latest Practicable Date, there was no outstanding share options granted under the Existing Share Option Scheme. The Directors have no intention to grant any options under the Existing Share Option Scheme on or prior to the date of the EGM. The Company had no outstanding warrants, options or other securities which are convertible into or giving rights to the holders thereof to subscribe for Shares as at the Latest Practicable Date.

Your attention is drawn to the paragraph headed “Newco Share Option Scheme” in Appendix II to this document in which the principal terms of the Newco Share Option Scheme are set out.

**LISTING AND DEALINGS**

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

**INDEBTEDNESS**

As at the close of business on 30 November 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group did not have, apart from intra-group liabilities, any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 November 2004.

**LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 November 2004, the Group had net assets of approximately HK\$178 million. Current assets of the Group of approximately HK\$35 million mainly comprised fixed deposits of approximately HK\$34 million. Current liabilities of the Group of approximately HK\$1 million represented creditors and accruals. As at 30 November 2004, the Group's total investments of approximately HK\$144 million comprised investment in jointly controlled entities, associates and other investments of approximately HK\$24 million, HK\$58 million and HK\$62 million respectively.

Operations of the Group are generally funded by internal cash resources.

**MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up.

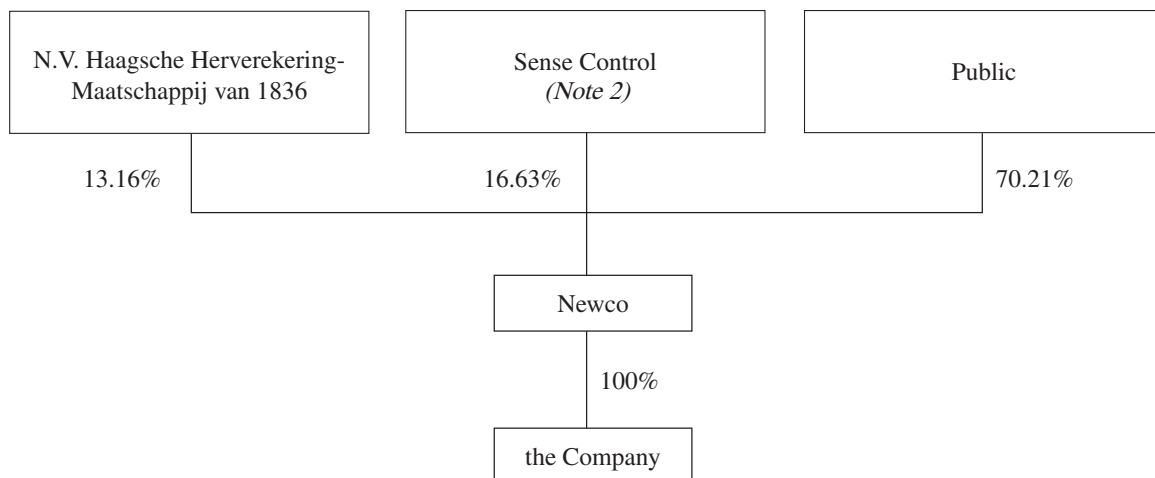


## INTRODUCTION

Newco was incorporated in the Cayman Islands on 1 August 2003 as an exempted company under the Companies Law and has not carried on any business activities since the date of its incorporation. Upon the implementation of the Scheme, Newco will be the holding company of the Group and will continue to carry on the present business activities of the Company.

## SHAREHOLDING STRUCTURE

The shareholding structure of Newco immediately after the implementation of the Scheme is set out below:



## Notes:

1. N.V. Haagsche Herverekering-Maatschappij van 1836 is an indirect wholly-owned subsidiary of ING Groep N.V.. ING Groep N.V. is one of the largest financial institution in the Netherland and Europe in terms of market capitalisation.
2. The Company announced on 19 April 2004 that it has accepted an application from Sense Control to subscribe for 107,600,000 new Shares. Completion of the Subscription, which is not conditional on the implementation of the Scheme, was scheduled to take place on the 30th business day after the date of delivery by the Company to Sense Control a copy of the approval of the listing of, and permission to deal in, the Subscription Shares by the Listing Committee of the Stock Exchange (the "Subscription Shares Listing Approval"). The Company duly delivered of the Subscription Shares Listing Approval on 3 June 2004 and therefore, completion of the Subscription should take place on 19 July 2004. On 20 July 2004, the Company announced that it had accepted a request from Sense Control to postpone completion of the Subscription to 19 October 2004 in order to provide more time to Sense Control for the arrangement of fund. On 28 October 2004, the Company announced that it had agreed with Sense Control to further postpone completion of the Subscription to 19 December 2004 to allow Sense Control more time to review the progress of the Scheme. Completion of the Subscription was further postponed to on or before 5 January 2005 following the Company accepted a request from Sense Control on 24 December 2004 to allow Sense Control more time to arrange the funding. A cheque for the balance of the subscription monies was received from Sense Control on the same day. Completion of the Subscription took place on 3 January 2005 and Sense Control was issued and allotted 107,600,000 Shares, representing approximately 16.63% of

the enlarged issued share capital of the Company, and the shareholding interest of each of N.V. Haagsche Hervereking-Maatachappij van 1386 and the public has been diluted to approximately 13.16% and 70.21% respectively. Sense Control is beneficially and wholly owned by Mr. Lin Si Yu, a PRC citizen performing personal investments in listed securities principally in the PRC stock markets, including 中國聯合通信股份有限公司 (Shanghai stock exchange code: 600050) and 安徽銅都銅業有限公司 (Shenzhen stock exchange code: 000620), Mr. Lin is not a connected person (as defined in the Listing Rules) of the Company. As at the Latest Practicable Date, Mr. Lin was not holding any directorship role in any listed companies.

## INVESTMENT OBJECTIVES

Newco is an investment company incorporated in the Cayman Islands. Its investment objective is to achieve medium-term (i.e. three to five years) to long-term (i.e. five to 10 years) capital appreciation of its assets primarily through investments in money market securities and equity and debt related securities in listed and/or unlisted companies or entities on a global basis.

## INVESTMENT POLICIES

Newco itself or through its wholly-owned subsidiaries will invest in money market securities (which are short term, liquid and low risk debt securities) and equity and debt related securities (including, but not limited to, shares, preference shares, warrants, options, futures contracts, convertible securities, mutual funds and unit trusts) in listed and/or unlisted companies or entities on a global basis, or such other types of investment in accordance with the investment objectives and policies adopted by and investment restrictions imposed on Newco from time to time and the requirements of the memorandum and articles of Newco, the Listing Rules and the investment management agreement between Newco and the Investment Manager. Investments of Newco will be made in listed and/or unlisted companies or entities which would enable the restructured Group to generate income and/or to gain capital appreciation and/or to diversify the risk of its investment portfolio. Newco has no intention to invest in commodities or precious metal.

Newco's investment objectives and policies have no restriction on any specific industry and will remain in force for a minimum period of three years from the date of the Scheme becoming effective unless otherwise decided by the shareholders of Newco by a special resolution in a general meeting. Upon the expiry of the above three years period, any amendment of Newco's investment objectives and policies will not require approval from the shareholders of Newco. The board of directors of Newco has no present intention to change Newco's investment objectives and policies.

## INVESTMENT RESTRICTIONS

The articles of association of Newco and the Listing Rules contain the following restrictions on the investment powers of Newco:

- (i) Newco shall not either on its own or through its wholly-owned subsidiaries, or in conjunction with any connected person, take legal or effective management control of underlying investments and will not either itself or through its wholly-owned subsidiaries invest or own or control more than 30% (or such other percentage as may from time to time be specified in the Takeovers Code or other laws, regulations, rules, codes, order or policies of other

relevant jurisdiction as being the level for triggering a mandatory general offer or other similar action or consequence) of the voting rights in any one company or body, except in relation to wholly-owned subsidiaries of Newco for the sole purpose of holding investments of Newco; and

- (ii) Newco shall maintain a reasonable spread of investments and the value of its holding of investments issued by any one company or body other than wholly-owned subsidiaries of Newco shall not exceed 20% of Newco's net asset value as at the date of such investment is made.

Newco is required under the Listing Rules to comply with investment restrictions (i) and (ii) above at all times while its shares remain listed on the Stock Exchange under Chapter 21 of the Listing Rules. **Shareholders should note that the investment restrictions of Newco are less restricted than those of the Company as disclosed in Appendix I to this document.** The directors of Newco consider that the relaxed investment restrictions of Newco as compared with those of the Company will provide the Group more flexibility in exploring investment opportunities.

## **BORROWING POWERS AND POLICY**

The articles of association of Newco provides that the board of directors of Newco may from time to time at its discretion exercise all the powers of Newco to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of Newco and, subject to the Companies Law, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of Newco or of any third party.

## **ACCOUNTS**

The financial year end of Newco is 31 December, the same as that of the Company. Copies of Newco's annual and interim reports will be mailed to shareholders within four and three months from the end of the relevant periods respectively.

**DIRECTORS**

The directors of Newco are as follows:

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive directors</i>		
Mr. Liu Xiao Guang	Room 6, Building 10 Yu Shu Guan Xi Li Xi Cheng District Beijing 100044 the PRC	Chinese
Mr. Cheng Bing Ren	Room 3, Floor 16 Building A3 He Taoyuan Chao Yang District Beijing 100020 the PRC	Chinese
Mr. Lawrence H. Wood (also known as Wu Yuk Shing or Hu Xu Cheng)	Room 604 Block 33, Heng Fa Chuen Chaiwan Hong Kong	Chinese
Mr. Liu Xue Min	Room 604 Block 33, Heng Fa Chuen Chaiwan Hong Kong	Chinese
<i>Independent non-executive directors</i>		
Mr. To Chun Kei	35A, 1st Floor Block A, Tseng Tau Village Sai Kung New Territories Hong Kong	Chinese

Name	Address	Nationality
Dr. Kwong Chun Wai	3rd Floor, Hong Garden 41 Homantin Street Kowloon Hong Kong	Chinese
Mr. Fung Tze Wa	Flat F 13th Floor Block 4 Beacon Heights Lung Ping Road Kowloon Hong Kong	British

Set out below are brief biographical details of the directors of Newco:

### Executive directors

Mr. **Liu Xiao Guang**, aged 49, is the chairman of the board of directors of Newco. He is also the chairman of the board of directors of Beijing Capital Land Ltd., which is a H-share company listed on the Stock Exchange and is a property developer in Beijing, focusing primarily on developing quality/high-end office buildings and commercial properties and medium to high-end residential properties. Mr. Liu has been appointed an executive Director since March 1994. He was the deputy director of the Beijing Municipal Planning Commission, deputy secretary-general of the City Planning and Construction Exchange and an adjunct professor of Beijing Commerce College. Mr. Liu has extensive experience in the management and supervision of large investment projects, and in various sectors and industries, including finance, securities, futures, foreign currency, real estate, commerce, foreign trade, tourism, consultancy and government investment fund. In respect of his management of the Beijing government's investment funds, Mr. Liu was a member of professional management committees for several investments funds including the Beijing Government Export Industry Fund whose size was more than RMB50 million per annum, the Beijing Government Tourism Development Technical Innovation Development Fund whose size was more than US\$10 million per annum, and the Beijing Government Commercial Facilities Fund whose size was more than RMB80 million per annum. The size of the foreign exchange reserves held by Mr. Liu was more than US\$45 million per annum. These funds were deposits funds of the Beijing Municipal People's Government which held the foreign exchange reserve of the government for specific purposes and therefore they did not have any target client. However, their investments were subject to normal commercial investment criteria, including consideration of, *inter alia*, the rate of return, payback period and repayment ability. Mr. Liu, together with other members of the respective professional management committees of the funds, was responsible for evaluating and making final decisions on each funding proposal, based on the specific investment objectives of the respective fund. Mr. Liu also participated extensively in the review and approval of foreign investment projects as well as in supervising the preparation of foreign investment research and feasibility studies in Beijing for Beijing Capital. He is currently the vice chairman and deputy general manager of Beijing Capital, a large-sized enterprise group directly under the supervision of Beijing Municipal People's Government. Mr. Liu obtained a bachelor's degree in economics from Beijing Commerce College in 1983.

Mr. **Cheng Bing Ren**, aged 54, is the deputy general manager of the Beijing International Trust and Investment Corporation Limited (“BITIC”), a state-owned enterprise which is engaged in the provision of financial trust products and services. Since Mr. Cheng joined BITIC in 1987, he has been primarily responsible for managing BITIC’s trust management business. Being a member of the senior management of BITIC’s trust management business, Mr. Cheng has wide discretion and authority to make investment decisions for the discretionary trust clients of BITIC. Most of these clients have been assigned by the PRC government. Mr. Cheng is also responsible for the evaluation, monitoring and management of investments for BITIC itself. He obtained a graduate certificate from Beijing Normal College, a teachers’ college in the PRC, in 1977. Mr. Cheng was appointed an executive Director in March 1994.

Mr. **Lawrence H. Wood** (also known as Wu Yuk Shing or Hu Xu Cheng), aged 43, has been appointed an executive Director since March 1994. Mr. Wood graduated with a bachelor degree in economics from the Beijing Economics College in 1983. Over the past 10 years, he has been working with the Beijing International Trade Association and the Beijing International Trade Research Institute, during which period his responsibilities included performing financial and economic research and providing professional advice on Beijing Government’s cross-provincial investments and foreign investments, participating in the decision-making process for granting export rights to Beijing government-owned enterprises, evaluating investment proposals as well as supervising sino-foreign investments in Beijing. In addition, he served as a consultant providing investment advice for a number of PRC enterprises including Beijing Siemens Co., Limited and the Novotel Peace Beijing Hotel in Beijing.

Mr. **Liu Xue Min**, aged 46, was redesignated from independent non-executive Director to non-executive Director with effect from 17 September 2004. Mr. Liu graduated with a master degree in currency and banking from Post Graduate Institute of Chinese Academy of Social Science in the PRC in 1998. He is the chairman of First Capital Securities Co., Limited, which is a subsidiary of Beijing Capital and is engaged in the provision of financial services including securities consultation and asset management, and was the general manager of Beijing Jingfang Economic Development Company, a state-owned company which is engaged in the investment, securities and real estate development businesses in the PRC, from 1993 to 1997. Mr. Liu was appointed an executive director of Newco on 7 June 2004. The board of directors of Newco consider that the appointment of Mr. Liu Xue Min as an executive director of Newco can provide valuable expertise to Newco in assessing investment and divestment opportunities in light of Mr. Liu’s experience in the financial industry.

### **Independent non-executive directors**

Mr. **To Chun Kei**, aged 38, has over 10 years of experience in accounting and financial management. He was the financial controller of a private company in Hong Kong which is primarily engaged in the property investment business from 2001 to 2004. Prior to joining this private company in 2001, he worked as the financial controller of Kiu Lok Service Management Co., Ltd., a subsidiary of New World Property Holdings Limited, from 2000 to 2001. He also worked as a senior accountant in Hop Hing Holdings Limited, the shares of which are listed on the Stock Exchange, during 1994 to 2000. Mr. To graduated from the University of Western Sydney, Australia and has a bachelor degree in business administration. He is an associate member of Hong Kong Institute of Certified Public Accountants and Association of International Accountants. Mr. To was appointed an independent non-executive Director on 17 September 2004.

Dr. **Kwong Chun Wai**, aged 39, is a fellow of the International Institute of Management, a fellow of the Hong Kong Institute of Marketing and a member of the Hong Kong Logistics Association. He is currently an independent non-executive director of China Everbright Technology Limited, a company whose shares are listed on the Stock Exchange, a director of the Hong Kong Economic and Trade Association, principal examiner of Cambridge Career Awards in Business, University of Cambridge Local Examination Syndicate in the United Kingdom and a business strategist specialising in the area of marketing and business administration. Dr. Kwong obtained a bachelor of arts degree with honours in philosophy from the University of Nottingham in the United Kingdom in 1987 and a doctor degree in business administration from Newport University in the United States in 2001. He has worked in leading media corporations as senior executives and served in the past as executive committee member in the Hong Kong branch of the Chartered Institute of Marketing and certified professional marketer of the Hong Kong Institute of Marketing. Dr. Kwong was appointed an independent non-executive Director in August 2003.

Mr. **Fung Tze Wa**, aged 48, is a certified public accountant. He has been a director of Lawrence (DFK) CPA Limited, a professional accounting firm in Hong Kong since 2002 and had worked in the fields of accounting and finance in several listed companies in Hong Kong for over 10 years. Mr. Fung has extensive experience in auditing, taxation and company secretarial practice in Hong Kong. He is an independent non-executive director of China Everbright Technology Limited, a company whose shares are listed on the Stock Exchange and is a member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. He obtained a master degree in professional accounting from Hong Kong Polytechnic University in 2000. Mr. Fung was appointed an independent non-executive Director on 17 September 2004.

## PARTICULARS OF SERVICE CONTRACTS

Each of Messrs. Liu Xiao Guang, Cheng Bing Ben, Lawrence H. Wood and Liu Xue Min has entered into a service contract on 29 October 2004 with Newco under which they agreed to act as directors of Newco for a period of three years and shall continue for a maximum of three years, and unless terminated in accordance with the terms of the service contracts. Save for Mr. Lawrence H. Wood who will receive an aggregate annual remuneration of HK\$690,000, the initial annual salary payable by Newco for each of the directors of Newco is HK\$30,000 respectively under their respective service contracts. The salary payable to the directors of Newco, including Mr. Lawrence H. Wood, is determined with reference to the present remuneration to the directors. The amount of the annual salary increment under such service contracts will make reference to increase of time spent by the relevant director comparing with that in the previous year and is at the discretion of the board of directors of Newco, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the board of directors of Newco in relation to him. The service contract may be terminated forthwith by Newco if the relevant director has become unfit to act as a director, such as become bankrupt, guilty of misconduct, convicted of criminal offence, become incapacitated by reason of ill-health or accident, and will be terminated automatically if the relevant director has ceased to be a director of Newco.

Save as disclosed above, none of the directors of Newco had any existing or proposed service contract with any member of the Group, (excluding contract expiring or determinable by the relevant employers within one year without payment of compensation (other than statutory compensation)) as at the Latest Practicable Date.

**AUDIT COMMITTEE**

Newco established an audit committee on 4 November 2004 subject to the Scheme becoming effective with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the board of directors of Newco upon the implementation of the Scheme. The audit committee consists of the three independent non-executive directors, namely Mr. To Chun Kei, Dr. Kwong Chun Wai and Mr. Fung Tze Wa. Mr. To Chun Kei is the chairman of the audit committee.

**INVESTMENT MANAGER**

Details of the Investment Manager are set out under the paragraph headed “Investment Manager” in Appendix I to this document.

As at the Latest Practicable Date, the Investment Manager was not providing any services to other investment companies whose shares are listed on the Stock Exchange under Chapter 21 of the Listing Rules. On 29 October 2004, the Company, the Investment Manager and Newco entered into a novation agreement, pursuant to which the parties agreed that the Company will assign to Newco all its rights and benefits under the previous investment management agreements and the released and discharged from all obligations thereunder subject to the Scheme becoming effective. Accordingly, the Investment Manager will become the investment manager of Newco upon the Scheme becoming effective and the investment fee payable to the Investment Manager and its current responsibilities will remain unchanged. The responsibilities of the Investment Manager is to seeking out, identifying, reviewing and evaluating investment and divestment opportunities, executing investment and divesting decisions, and monitoring investments of Newco. It will be the responsibility of the board of directors of Newco to formulate Newco’s overall investment strategy and guidelines in accordance with the investment objectives and policies of Newco. Neither the board of directors of Newco nor the Investment Manager can make investment decision on its own. Proposal of possible investments or divestments will first be assessed by the Investment Manager in accordance with the investment policies of Newco and the guidelines issued from the board of directors of Newco from time to time. Investment proposals reviewed and recommended by the Investment Manager together with the interest of Investment Manager in the proposals, if any, will be forwarded to the board of directors of Newco for its approval. Pursuant to the novation agreement, the Investment Manager has undertaken that it will not render similar services to those the Investment Manager to be providing to Newco to other clients (including other funds) so long as the Investment Manager remains as the investment manager of Newco.

**ADMINISTRATOR**

Details of the Administrator are set out under the paragraph headed “Administrator and Custodian” in Appendix I to this document.

The Administrator entered into an administrative agreement with Newco on 29 October 2004, pursuant to which the Administrator will provide administrative and secretarial services to Newco upon implementation of the Scheme. The administrative agreement has no fixed term but is subject to termination by either the Administrator or the Company giving to the other party not less than six months’ prior notice of termination. The Administrator is entitled to receive a fixed fee of HK\$800,000 per year under the administrative agreement.



**CUSTODIAN**

Newco has appointed The Law Debenture Corporation (H.K.) Limited (the “Custodian”) to act as its custodian pursuant to a custodian agreement dated 11 January 2005. The Custodian is a wholly-owned subsidiary of The Law Debenture Corporation p.l.c., an international trustee corporation based in London, the United Kingdom, and is principally engaged in the provision of trustee, nominee and escrow services (an example of escrow service is that in the event that part of the consideration for a share sale transaction was to be deferred pending satisfaction of certain conditions, the vendor may wish to ensure that the funds would be ringfenced and under the control of an independent third party. Accordingly, an amount to cover the deferred consideration will be held by an escrow agent for release against a specified form of confirmation) in Hong Kong and is an independent third party and is not a connected person (as defined in the Listing Rules) of Newco. Pursuant to the custodian agreement, the term of appointment of the Custodian shall commence upon the scheme becoming effective and shall continue in force until such an agreement is terminated by either Newco or the Custodian giving to the other not less than 25 days’ notice in writing expiring at any time. Pursuant to the terms of the custodian agreement, the Custodian is responsible for the safe-keeping of the documents of title of the assets comprising the investments of Newco managed by the Investment Manager pursuant to the investment management agreement from time to time, together with all rights and interests attaching thereto.

Pursuant to the custodian agreement, the Custodian is entitled to receive a fixed annual fee of HK\$50,000, payable in advance semi-annually, excluding of any out-of-pocket expenses for the provision of custodian services.

**COMPANY SECRETARY**

The company secretary of Newco is Ms. Ngai Lin Ying. Ms. Ngai, aged 43, has over 15 years of experience in the corporate secretarial field. She graduated with a bachelor degree in arts from The Hong Kong Polytechnic University in 1996. She is an associate member of the Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Ms. Ngai is a full-time employee of the Administrator.

**SENIOR MANAGEMENT AND QUALIFIED ACCOUNTANT**

Mr. Li Chun Hung, aged 43, was appointed as the qualified accountant of Newco on 4 November 2004 on a full-time basis. He holds a master of business administration, accounting and finance degree from Clayton University, the United States and has over 18 years of experience in the audit and accounting fields for private companies. Mr. Li is an associate member of Hong Kong Institute of Certified Public Accountants, an associate member of Association of International Accountants, an associate member of The Taxation Institute of Hong Kong, and an Associate Member of Institute of Financial Accountants. In view of Mr. Li’s qualification and expertise in the accounting field and the importance of the role and responsibility of a qualified accountant under the Listing Rules, the Directors consider that Mr. Li, as the qualified accountant of Newco, is a member of the senior management of Newco.

**DIRECTORS OF THE INVESTMENT MANAGER**

Mr. **Christopher Kelso Bedford Brotchie**, aged 58, is the chief executive officer of Baring Private Equity Partners Group. He serves on all of Baring Private Equity Partners’ investment committees and partnership boards worldwide. The Baring Private Equity Partners Group has over 40 funds worldwide under management which mostly target professional investors. The net asset value of the funds under

management was approximately US\$2 billion in aggregate as at 31 December 2003. Over the last 14 years, Mr. Brotchie originated, evaluated and led numerous investment opportunities, playing in a key role in the investment decision making process in Asia, Europe, and the United States across a wide range of business sectors. In January 2001, he was appointed a member of the ING Group General Management Council. Prior to his appointment as the chief executive officer of Baring Private Equity Partners Group, he was responsible for building Baring Private Equity Partners Group's business in both Germany and Asia. Mr. Brotchie returned from five years in Singapore to take over as group chief executive in 2000. Prior to joining Baring Private Equity Partners Group in 1986, Mr. Brotchie had 15 years of management experience in the industrial sector, of which 13 years were spent as chief executive officer of both public and private companies.

Mr. Brotchie graduated with a bachelor of technology degree (honours) from Brunel University in United Kingdom, and is a Chartered Engineer, Winner of the Society of British Aerospace Companies' John de Havilland Award, author of *The Merger & Acquisition Handbook - West Germany* and a Fellow of the Royal Society of Arts. He holds an individual registration with Financial Services Authority in the United Kingdom.

Mr. **Kwan Bo Ren, Dick**, aged 42, is a senior partner of Baring Private Equity Partners and a director of the Investment Manager. Mr. Kwan is a responsible officer of the Investment Manager to perform types 4, 6 and 9 regulated activities under the SFO. He was an executive director of Newco prior to his resignation on 14 April 2004 after the then board of directors of Newco resolved that four executive directors are sufficient for the purpose of the formation of a new board of directors. He has been working with the ING Group for over 10 years and is now responsible for private equity business in China. His roles involve exploring, identifying, reviewing and evaluating investment and divestment opportunities making investment, implementing and realisation decisions as well as monitoring and supervising investments for the Investment Manager and Baring Private Equity Partners. Mr. Kwan is the principal supervisor responsible for supervising the fund management services provided to the Company, whose net asset value was approximately HK\$182 million as at 31 December 2003, and China Property Development (Holdings) Limited whose unaudited net assets were approximately US\$16 million as at 31 December 2003. Prior to joining ING Group, he was the Senior Vice President of Clemente Capital (Asia) Limited from 1993 to 1994 and was primarily responsible for the provision of investment and divestment advice and managed a major Hong Kong-listed China fund of approximately US\$100 million in value, which targeted professional and institutional investors and was ranked as the best performing emerging market fund for 1994/1995 by the International Herald Tribune. Mr. Kwan has over 10 years of private equity fund management experience and possesses extensive knowledge of the PRC market. He has made successful acquisitions of leading Chinese companies and has also managed divestments of major Chinese assets, including listed companies in New York and Hong Kong. During his time in the PRC, he made significant contributions to the country's development of the private equity/venture capital industries and advised on the establishment of a number of China funds. Mr. Kwan is an Associate of The Institute of Chartered Accountants in England and Wales. During the period from 1985 to 1991, Mr. Kwan was employed by KPMG in London where he specialised in banking and risk management.

Ms. **Lau Yin Wing**, aged 43, joined Baring Capital Partners in November 1998 and is the head of its operations and finance division. She is a responsible officer of the Investment Manager to perform types 4, 6 and 9 regulated activities under the SFO and is responsible for the operational aspects of the Investment Manager's fund management business covering fund administration, investment monitoring, finance and compliance works. For every investment approved by the Board, she is responsible for the legal documentation, compliance and completion of the investment. Ms. Lau also monitors the performance of each investee company of the Company and prepares regular fund performance reports for the Investment Manager.

Before joining Baring Capital Partners, Ms. Lau was the operations manager of the Guangzhou branch of Societe Generale, she was responsible for the branch management compliance functions, and supervised operations of the branch's trade finance, loan administration and credit control activities. Ms. Lau was responsible for the opening of the Shanghai branch of Societe Generale and assisted in the establishment of its operation system and full functioning. She also worked as the head of organisation & methods of the Hong Kong branch of Societe Generale in reviewing the internal systems of the bank.

Ms. Lau holds a master of business administration degree from University of Warwick in England and an associate membership of Chartered Institute of Bankers (ACIB).

## CONTINUING CONNECTED TRANSACTIONS

The Investment Manager and the Custodian will be regarded as connected persons of Newco after the implementation of the Scheme in accordance with Rule 21.13 of the Listing Rules. Accordingly, the existing agreements between these parties respectively with Newco constitute continuing connected transactions for Newco under Chapter 14A of the Listing Rules.

The custodian fee payable to the Custodian in respect of the Custodian services are expected to fall below the de-minimis threshold under Rule 14A.33 of the Listing Rules. As these transactions will be conducted on normal commercial terms and in the ordinary and usual course of business of Newco, they will therefore be exempted from the disclosure and shareholders' approval requirements under the Listing Rules. Newco will comply with the applicable requirements under Chapter 14A of the Listing Rules and disclose full details by press notice and/or seek independent Shareholders' approval if the fees payable to the Custodian during its term of service in respect of each financial year of Newco exceeds the thresholds as set out in Rule 14A.33 and/or Rule 14A.34 of the Listing Rules.

The annual investment management fee payable to the Investment Manager, as detailed in paragraph headed "Investment Manager" in Appendix I to this document, is expected to constitute less than HK\$10 million and each of the percentage ratios under Chapter 14 of the Listing Rules is less than 2.5% on an annual basis. As the transactions between the Investment Manager and Newco will be conducted on normal commercial terms and in the ordinary and usual course of business of Newco, they will be subject to the disclosure requirement under Rule 14A.34 of the Listing Rules which include publishing and disclosing details of the relevant connected transactions in newspapers and annual report every year and the annual review requirements under Rule 14A.37 to 14A.41 of the Listing Rules. Newco will comply with the applicable requirements under Chapter 14A of the Listing Rules and disclose full details by

press notice and/or seek independent shareholders' approval if the investment management fee payable to the Investment Manager during its term of service in respect of each financial year of Newco exceeds the thresholds as set out in Rule 14A.33 and/or Rule 14A.34 of the Listing Rules.

The board of directors of Newco, including the independent non-executive directors, and Quam, being the sponsor to the listing of the Newco Shares, are of the view that the custodian agreement and the investment management agreement have been entered into on normal commercial terms and in the ordinary and usual course of business of Newco, and that their terms are fair and reasonable and in the interests of the Shareholders and Newco as a whole.

## CORPORATE INFORMATION

### Registered office

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### Head office and principle place of business in Hong Kong

35th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

### Authorised representatives

Mr. Lawrence H. Wood  
Flat 604  
Block 33, Heng Fa Chuen  
Chaiwan  
Hong Kong

Ms. Ngai Lin Ying  
Flat F, 21st Floor  
Blessings Garden  
Phase II  
56 Conduit Road  
Hong Kong

<b>Company secretary</b>	Ms. Ngai Lin Ying ACIS, CIS
<b>Qualified accountant</b>	Mr. Li Chun Hung AHKICPA
<b>Members of the audit committee</b>	Mr. To Chun Kei Dr. Kwong Chun Wai Mr. Fung Tze Wa
<b>Principal share registrar and transfer office</b>	<b>Bank of Butterfield International (Cayman) Ltd.</b> Butterfield House 68 Fort Street P.O. Box 1405 George Town Grand Cayman British West Indies
<b>Hong Kong branch share registrar and Transfer Office</b>	<b>Standard Registrars Limited</b> Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
<b>Principal bankers</b>	<b>ING Bank N.V</b> 35th to 39th Floor One International Finance Centre 1 Harbour View Street Central Hong Kong
	<b>The Bank of East Asia, Limited</b> Ground Floor The Bank of East Asia Building 10 Des Voeux Road Central Hong Kong

**Investment Manager****Baring Capital (China) Management Limited*****Hong Kong office:***

39th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

***Beijing office:***

Room 1501  
Landmark Building  
No. 8 North Dongsanhuan Road  
Beijing 100004  
the PRC

**Directors of Investment Manager****Mr. Christopher Kelso Bedford Brotchie**

Laurel House  
Queens Road  
Richmond, Surrey  
TW10 6JJ  
United Kingdom

**Mr. Kwan Bo Ren, Dick**

Apartment 21, Level 11  
Block 3, Hong Kong Parkview  
88 Tai Tam Reservoir Road  
Hong Kong

**Ms. Lau Yin Wing**

Flat 1601, 16th Floor  
Block B, Ching Wang Court  
Tsing Yi  
Hong Kong

**Administrator****ING Management (Hong Kong) Limited**

35th Floor  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**Custodian****The Law Debenture Corporation (H.K.) Limited**

Suite 1904, 19th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**PARTIES INVOLVED IN THE SCHEME****Sponsor and financial adviser****Quam Capital Limited**

Room 3208  
Gloucester Tower  
The Landmark, 11 Pedder Street  
Central  
Hong Kong

**Auditors****KPMG**

*Certified Public Accountants*  
8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

**Legal Advisers**

*As to Hong Kong law:*

**Sidley Austin Brown & Wood**

39th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

*As to Cayman Islands law:*

**Conyers Dill & Pearman, Cayman**

Century Yard  
Cricket Square  
Hutchins Drive  
George Town  
Grand Cayman  
British West Indies

**SHARE CAPITAL****Authorised and issued share capital**

Newco was incorporated in the Cayman Islands as an exempted company under the Companies Law on 1 August 2003 with an authorised share capital of HK\$100,000 divided into 10,000,000 Newco Shares all of which have been issued nil paid and are registered in the name of and beneficially owned by the Company. All of these Newco Shares will be credited as fully paid on the Scheme becoming effective.

Upon the implementation of the Scheme and on the basis of the number of Shares in issue on the Latest Practicable Date and assuming no further Shares will be issued or repurchased by the Company, the authorised and issued share capital of Newco will be:

*Authorised:*

1,200,000,000 Newco Shares

HK\$12,000,000

*Issued and fully paid or credited as fully paid:*

647,114,000 Newco Shares

HK\$6,471,140

The directors of Newco, conditional on the Scheme becoming effective and the Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, Newco Shares in issue and to be issued pursuant to the Scheme, have been authorised by the Company as the present sole shareholder of Newco:

- (a) to allot, issue and deal with Newco Shares and to make or grant offers, agreements and options which would or might require the exercise of such powers, provided that the aggregate nominal amount of the Newco Shares to be allotted or issued or dealt in, including any Newco Shares agreed conditionally or unconditionally to be allotted, issued or dealt in (whether pursuant to an option or otherwise), by the directors of Newco shall not exceed 20% of the aggregate nominal amount of the share capital of the Newco in issue immediately upon completion of the allotment and issue of Newco Shares pursuant to the Scheme unless such allotment or agreement is made: (i) by way of rights, or (ii) pursuant to an issue of Newco Shares upon the exercise of any options under the Newco Share Option Scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Newco and/or any of its subsidiaries of Newco Shares or rights to acquire Newco Shares; or (iii) pursuant to an issue of Newco Shares in lieu of the whole or part of a dividend on Newco Shares in accordance with the articles of association of Newco in force from time to time;
- (b) to exercise all powers of Newco to repurchase Newco Shares on the Stock Exchange or any other stock exchange on which the Newco Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or those of such other stock exchange, as the case may be, as amended from time to time, provided that the aggregate nominal amount of the Newco Shares so repurchased shall not exceed 10% of the aggregate nominal value of the issue share capital of Newco immediately upon completion of the allotment and issue of Newco Shares pursuant to the Scheme; and



- (c) to allot, issue and deal with further Newco Shares representing the aggregate nominal amount of the Newco Shares repurchased by Newco pursuant to the mandate to repurchase Newco Shares referred to in sub-paragraph (b) above, in addition to the aggregate nominal amount of the Newco Shares which may be allotted, issued or dealt with by the directors of Newco pursuant to the mandate described in sub-paragraph (a) above, provided that such amount shall not exceed 10% of aggregate nominal value of the share capital of Newco in issue immediately upon completion of the allotment and issue of Newco Shares pursuant to the Scheme.

The general mandates referred to above will be effective on the Effective Date until the earliest of the conclusion of the next annual general meeting of Newco, the expiration of the period within which the next annual general meeting of Newco is required by its articles of association or any applicable law of the Cayman Islands to be held and the variation or revocation of such authority by an ordinary resolution of Newco.

A statement explaining the share repurchase mandate as described in sub-paragraph (b) above in accordance with the requirements of the Listing Rules in respect of a repurchase of securities by a company with its primary listing on the Stock Exchange is set out in the paragraph below headed “Share repurchase mandate”.

The Company, as the existing sole shareholder of Newco, has passed a resolution adopting the Newco Share Option Scheme, subject to and conditional upon (i) the approval of the Shareholders at the EGM; (ii) the Scheme becoming effective; (iii) the granting by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Newco Shares in issue and to be issued upon the exercise of the options granted under the Newco Share Option Scheme. The Newco Share Option Scheme contains provisions for the grant of options to subscribe for an aggregate number of the New Shares representing up to 10% of the Newco Shares in issue immediately prior to the listing of the Newco Shares on the Stock Exchange. A summary of the principal terms of the Newco Share Option Scheme is set out in the section below headed “Share option scheme”.

Each of the Newco Shares to be issued on the Effective Date will rank *pari passu* in all respects with the existing Newco Shares including as to dividends, voting rights and return of capital or other distributions that may be declared, paid or made.

Since the date of its incorporation and save as disclosed in this Appendix, there has been no alteration in the share capital of Newco, no share or loan capital of Newco has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts or other special terms have been granted by Newco or its subsidiaries in connection with the issue or sale of any such capital. None of the unissued share or loan capital of Newco is under option or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

Any issue of Newco Shares will be made in compliance with the Listing Rules and the constitutional documents of Newco.

**Listing**

Newco has applied for the listing of, and permission to deal, in the Newco Shares in issue and to be issued pursuant to the Scheme and the Newco Shares which may fall to be issued upon the exercise of the options which may be granted under the Newco Share Options Scheme. The Newco Shares will not be listed or dealt in on any other stock exchange.

**SHARE REPURCHASE MANDATE****The Listing Rules**

This section includes information required by the Listing Rules to be included in this document concerning the securities repurchase mandate conditionally granted to the directors of Newco by the Company as the sole shareholder of Newco.

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

*(i) Shareholders' approval*

The Listing Rules provide that all proposed repurchases of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

*(ii) Source of funds*

Repurchase must be funded out of funds legally available for the purpose under Cayman Islands law and the constitutional documents of the company.

*(iii) Trading restrictions*

Under the repurchase mandate, a maximum of 10% of the fully paid-up issued share capital of a company as at the date of the resolution granting the general mandate may be repurchased on the Stock Exchange. A company may not issue or announce an issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise for warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase). The Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the result of the repurchase will result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage (currently applicable percentage to the Company is 25%) as required by the Stock Exchange.

The Listing Rules also prohibit a company from purchasing its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in effect from time to time.

A company shall procure that any broker appointed by the company to effect the purchase of its shares shall provide to the Stock Exchange such information with respect to purchase, made behalf of the Company as the Stock Exchange may request.

*(iv) Status of repurchased securities*

The Listing Rules provide that all repurchased securities must be automatically cancelled and the certificates for the securities must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares will be treated as cancelled.

*(v) Suspension of repurchase*

The Listing Rules prohibit any repurchase of securities at any time after the directors have made any decision in respect of a price sensitive development until the price sensitive information has been publicly announced. In addition, the Stock Exchange may prohibit repurchase of securities on the Stock Exchange if a company has breached the Listing Rules.

*(vi) Reporting requirements*

Under the Listing Rules, repurchase of shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, the company is required to disclose in its annual reports and accounts details regarding share repurchases made during the financial year/period, including a monthly breakdown of repurchase of shares, the number of shares repurchased, the purchase price per share and the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

*(vii) Connected parties*

The Listing Rules prohibit a company from knowingly repurchasing shares on the Stock Exchange from a connected person (as defined in the Listing Rules) and a connected person is prohibited from knowingly selling his shares to the company.

**Share capital**

As at the Latest Practicable Date, the issued share capital of the Company was HK\$64,711,400 comprising 647,114,000 Shares. If no further Shares are issued or repurchased between the Latest Practicable Date and the Record Time, the total number of the Newco Shares will be 647,114,000 immediately upon the Scheme becoming effective and the maximum number of Newco Shares that can be repurchased by the directors of Newco will be 64,711,400.

**Reasons for repurchases**

Although Newco has no present intention of repurchasing any Newco Shares, the directors of Newco believe that the flexibility afforded by the share repurchase mandate would be beneficial to Newco and its shareholders. Repurchases may, depending on the circumstances, result in an increase of net assets and/or earnings per share. Furthermore, the exercise of the share repurchase mandate by the directors of Newco may lead to an increase volume of trading and therefore enhance liquidity in the Shares on the Stock Exchange.

**Funding of repurchases**

In repurchasing Newco Shares, Newco may only apply funds legally available for such purpose in accordance with its articles of association, the Listing Rules and the applicable laws of the Cayman Islands and Hong Kong.

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

**Directors' dealings**

None of the directors of Newco nor to the best of their knowledge and having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) has any present intention to sell any Newco Share to which they will be entitled in consideration of and in exchange for the cancellation and extinguishment of their Scheme Shares to Newco or its subsidiaries upon the Scheme becoming effective.

**Share prices**

The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous 12 months preceding the Latest Practicable Date were as follows:

	<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>
<b>2004</b>		
January	0.208	0.160
February	0.215	0.160
March	0.198	0.140
April	0.169	0.140
May	0.155	0.101
June	0.143	0.135
July	0.165	0.125
August	0.135	0.126
September	0.150	0.125
October	0.163	0.136
November	0.168	0.150
December	0.172	0.150
<b>2005</b>		
January (up to the Latest Practicable Date)	0.183	0.160

**General**

The directors of Newco have undertaken to the Stock Exchange that they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws of Cayman Island so far the same may be applicable.

If, as a result of a share repurchase by Newco, a shareholder's proportionate interest in the voting rights of Newco increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of shareholders acting in concert, may become obliged to make a mandatory general offer in accordance with Rule 26 of the Takeovers Code. The directors of Newco are not aware of any obligations which may arise under the Takeovers Code a result of any repurchase made pursuant to the repurchase mandate.

No connected person, as defined in the Listing Rules, has notified the Company or Newco that he has a present intention to sell any Newco Shares to which he will be entitled in consideration of the cancellation of his Scheme Shares to Newco or its subsidiaries, or has undertaken not to do so.

The Company did not purchase any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

**ESTATE DUTY**

No adverse material liability for estate duty would be likely to fall upon any member of the Group in relation to the implementation of the Scheme within the meaning of the Estate Duty Ordinance, Chapter 111, of the Laws of Hong Kong.

**MEMORANDUM AND ARTICLES OF ASSOCIATION OF NEWCO AND CAYMAN ISLANDS LAW**

Newco is a company incorporated in the Cayman Islands and, therefore, operates under the Cayman Islands law.

The constitution of Newco consists of a memorandum and articles of association. Newco has conditionally adopted a new set of articles of association subject to implementation of the Scheme which has replaced the articles of association initially adopted by Newco. There is no restriction in the new articles of association of Newco which limits the power of the board of directors of Newco to raise or borrow money for Newco or provides that change of investment objectives of Newco would require shareholders' approval.

A copy of the new articles of association of Newco, a summary of certain provisions of the new articles of association of Newco, a comparison thereof with the articles of association of the Company and a letter of advice summarising certain aspects of the Companies Law issued by Conyers Dill & Pearman, Cayman, the legal advisers on Cayman Islands law to Newco will be available for inspection as referred to in Appendix V to this document.

Any person wishing to have a more detailed summary of the Companies Law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**NEWCO SHARE OPTION SCHEME**

The Company, as the sole shareholder of Newco, has passed a resolution to adopt the Newco Share Option Scheme conditional upon, among others, the implementation of the Scheme. Set out below is a summary of the principal terms of the Newco Share Option Scheme:

**1. Purpose**

The purpose of the Newco Share Option Scheme is to enable Newco to grant options to employees, executives or officers of Newco or any of its subsidiaries (including executive, non-executive and independent non-executive directors of Newco or any of its subsidiaries) (the "Eligible Participants") as incentives and rewards for their contribution to Newco or such subsidiaries.

## 2. Who may join

The board of directors of Newco (the “Newco Board”) may, at its discretion, offer any of the Eligible Participants options to subscribe for such number of Newco Shares as the Newco Board may determine at an exercise price determined in accordance with paragraph 5 below. Upon acceptance of the option, the grantee shall pay HK\$10.00 to Newco by way of consideration for the grant.

## 3. Maximum number of Newco Shares

The maximum number of Newco Shares which may be issued upon exercise of all options to be granted under the Newco Share Option Scheme and any other share option scheme(s) of Newco must not exceed 10% of the Newco Shares in issue as at the date of the listing of the Newco Shares on the Stock Exchange (being 64,711,400 Newco Shares based on the 647,114,000 Shares in issue as at the Latest Practicable Date and assuming no Shares will be issued or repurchased prior to the listing of the Newco Shares on the Stock Exchange). Newco Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit.

Subject to the issue of a circular by Newco and the approval of its shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Newco Board may:

- (a) refresh this limit at any time to 10% of the Newco Shares in issue as at the date of the approval by the shareholders of Newco in general meeting (options previously granted under any share option schemes of Newco (including those outstanding, cancelled, lapsed in accordance with such schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed); and/or
- (b) grant options beyond the 10% limit to Eligible Participants specifically identified by the Newco Board whereupon Newco shall send a circular to its shareholders containing, amongst others, a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted and the purpose of granting options to the specified participants with an explanation as to how the options serve such purpose.

Notwithstanding the foregoing, the Newco Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Newco Share Option Scheme and any other share option scheme(s) of Newco at any time shall not exceed 30% of the Newco Shares in issue from time to time. No options shall be granted under any scheme(s) of Newco or any of its subsidiaries if this will result in the 30 per cent limit being exceeded.

**4. Maximum number of options to any one individual**

The total number of Newco Shares issued and which may fall to be issued upon exercise of the options granted under the Newco Share Option Scheme and any other share option scheme(s) of Newco (including exercised, cancelled and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Newco Shares in issue as at the date of grant.

Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by Newco and the approval of the shareholders of Newco in general meeting with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

**5. Price of Newco Shares**

The subscription price for a Newco Share in respect of any particular option granted under the Newco Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Newco Board in its absolute discretion shall determine, save that such price will not be less than the highest of (a) the closing price of the Newco Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day (and for this purpose shall be taken to be the date of the Newco Board meeting at which the Newco Board proposes to grant the options); (b) the average of the closing prices of the Newco Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a Newco Share.

**6. Granting options to connected persons**

Any grant of options to a director, chief executive or substantial shareholder of Newco or any of its associates (as defined in the Listing Rules) is required to be approved by the independent non-executive directors of Newco (excluding the independent non-executive director of Newco who is the grantee of the options).

If Newco proposes to grant options to a substantial shareholder (as defined in the Listing Rules) of Newco or any independent non-executive director of Newco or their respective associates (as defined in the Listing Rules) which will result in the number of Newco Shares issued and to be issued upon exercise of options granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant:

- (a) representing in aggregate over 0.1% of the Newco Shares in issue on the date of grant; and
- (b) having an aggregate value in excess of HK\$5 million, based on the closing price of the Newco Shares at the date of grant,



such further grant of options will be subject to the issue of a circular by Newco and the approval of the shareholders of Newco in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of Newco shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person (as defined in the Listing Rules) of Newco will be permitted to vote against the grant only if his intention to do so has been stated in the circular.

#### **7. Restrictions on the time of grant of options**

A grant of options may not be made after a price-sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price-sensitive information has been published in the newspaper. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (a) the date of the Newco Board meeting (or such date is first notified to the Stock Exchange in accordance with the Listing Rules for the approval of Newco's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (b) the deadline for Newco to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement.

#### **8. Rights are personal to grantee**

An option is personal to the grantee and the grantee may not in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or attempt to do so.

#### **9. Time of exercise of option**

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Newco Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The date of grant of any particular option is the date when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of Newco of HK\$10.00 by way of consideration is received by Newco, such date must be on or before the 15th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Newco Board at its absolute discretion, save that no option may be exercised more than three years after it has been granted. No option may be granted more than 10 years after the date of approval of the Newco Share Option Scheme. Subject to earlier termination by Newco in general meeting or by the Newco Board, the Newco Share Option Scheme shall be valid and effective for a period of 10 years after the date of adoption of the Newco Share Option Scheme by shareholders by resolution at a general meeting.

#### **10. Performance Target**

The Newco Board has the discretion to require a particular grantee to achieve certain performance targets specified at the time of grant before any option granted under the Newco Share Option Scheme can be exercised.

**11. Rights on ceasing employment or death**

If the grantee is under employment with Newco and/or any of its subsidiaries, in the event of the Grantee ceasing to be an Eligible Participant for any reason (including his voluntary resignation from his office or employment) other than termination of his employment on one or more of the grounds specified in paragraph 12 below or termination of his employment for any reason (including his death) during the 12-month period following the date on which his options are accepted, the grantee may exercise the option up to his entitlement at the date of cessation of his employment (to the extent not already exercised) within the period of 3 months (or in the case of death or insanity, within a period of 12 months, or in the case of termination of employment or otherwise ceasing to be an Eligible Participant on ground of ill health or disability or redundancy, within a period of 6 months) following the date of such cessation, which date shall be the last actual working day with Newco or its relevant subsidiary whether salary is paid in lieu of notice or not (or such longer period as the Newco Board may determine).

**12. Lapse of option on dismissal**

If the grantee of an option is under employment with Newco and/or any of its subsidiaries and ceases to be an Eligible Participant by reason of being dismissed on the grounds that he has been guilty of misconduct, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Newco Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with Newco or the relevant subsidiary, his option will lapse and not be exercisable on the date of termination of his employment.

**13. Rights on winding-up**

In the event a notice is given by Newco to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up Newco, Newco shall forthwith give notice thereof to all the grantees on the same day as it gives notice of the meeting to its shareholders and any grantee may by notice in writing to Newco accompanied by a remittance of the full amount of the aggregate exercise price for the Newco Shares in respect of which the notice is given (such notice to be received by Newco not later than four business days prior to the proposed shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and Newco shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Newco Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

**14. Rights on takeover**

If a general offer whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner is made to all the holders of Newco Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror) and such offer becomes or is declared unconditional

during the option period of the relevant option, the grantee shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

#### **15. Rights on compromise or arrangement between Newco and its members or creditors**

If, pursuant to the Companies Law, a compromise or arrangement between Newco and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of Newco or its amalgamation with any other company or companies, Newco shall give notice thereof to all the grantees (together with a notice of the existence of the provisions of this paragraph) on the same day as it despatches to members and/or creditors of Newco a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Newco Board shall endeavour to procure that the Newco Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of the Newco on the effective date thereof and that such Newco Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full as if such compromise or arrangement had not been proposed by Newco and no claim shall lie against Newco or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

#### **16. Lapse of the options**

An option will lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry date relevant to that option;
- (b) the expiry of any of the periods referred to in paragraphs 11, 13 and 14 above;
- (c) the date of commencement of the winding-up of Newco (as determined in accordance with the applicable law) as referred to in paragraph 13 above;
- (d) the date on which the scheme for the reconstruction of Newco or its amalgamation with any other company or companies, becomes effective as referred to in paragraph 15 above;

- (e) in the event the grantee is under employment with Newco and/or any of its subsidiaries, the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his employment on any one or more of the grounds specified in paragraph 12 above. A resolution of the Newco Board or the board of directors of the relevant subsidiary to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in paragraph 12 above shall be conclusive;
- (f) the date on which the grantee ceases to be an Eligible Participant on or after committing any act of bankruptcy or becoming insolvent or making any arrangements or composition with his creditors generally; or
- (g) the date on which the grantee commits a breach of the prohibitions specified in paragraph 8 above or the options are cancelled in accordance with paragraph 19 below.

### **17. Ranking of Newco Shares**

The Newco Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or such other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, Newco Shares allotted and issued on the exercise of options will rank *pari passu* with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of Newco as attached to the other fully-paid Newco Shares in issue on the date of issue.

### **18. Effect of alterations to capital**

In the event of a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital whilst any option may become or remains exercisable, such corresponding alterations (if any) shall be made in the number of Newco Shares subject to any outstanding options and/or the exercise price of each outstanding option and/or the number of Newco Shares in respect of which any further options may be granted as the auditors of Newco or the independent financial adviser shall certify in writing to the Newco Board to be in their opinion fair and reasonable and in compliance with Rule 17.03(13) of the Listing Rules and the note thereto. Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of Newco for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Newco Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

**19. Alteration of Newco Share Option Scheme**

The Newco Share Option Scheme may be altered in any respect by resolution of the Newco Board except that:

- (a) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules;
- (b) any material alteration to the terms and conditions of the Newco Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Newco Share Option Scheme),

shall first be approved by the shareholders of Newco in general meeting provided that if the proposed alteration shall adversely affect an option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Newco Share Option Scheme. The amended terms of the Newco Share Option Scheme shall still comply with the Chapter 17 of the Listing Rules and any change to the authority of the Newco Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders of Newco in general meeting.

**20. Cancellation of options**

Any cancellation of options granted but not exercised must be approved by the grantee of the relevant options. Where Newco cancels options and issues new ones to the same grantee, the issue of such new options may only be made under the Newco Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by shareholders of Newco.

**21. Termination of the Newco Share Option Scheme**

Newco may by resolution in general meeting at any time terminate the Newco Share Option Scheme and in such event no further option shall be offered but the provisions of Newco Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Newco Share Option Scheme. Options granted prior to such termination at the time of termination shall continue to be valid and exercisable in accordance with the Newco Share Option Scheme.

**22. Disclosure in annual and interim reports**

Newco will disclose details of the Newco Share Option Scheme in its annual and interim reports in compliance with the Listing Rules.

**Present status of the Newco Share Option Scheme**

Adoption of the Newco Share Option Scheme by Newco is conditional on the following:

- (i) the approval of the Shareholders at the EGM;
- (ii) the Scheme becoming effective; and
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Newco Shares which may fall to be issued upon the exercise of any options which may be granted under the Newco Share Option Scheme.

As at the Latest Practicable Date, no options have been granted or agreed to be granted under the Newco Share Option Scheme.

The Directors and the directors of Newco consider it inappropriate to disclose the value of options which may be granted under the Newco Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors and the directors of Newco believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading.

**RISKS ASSOCIATED WITH NEWCO'S INVESTMENTS**

Newco is an investment company and its assets will be invested in listed and/or unlisted companies or entities on a global basis. These investments will be subject to market fluctuations and to the risks inherent in all investments. Income of Newco and its net asset value may go down as well as up, subject to, among other things, the then prevailing market conditions.

**GENERAL**

- (a) Newco has registered a place of business in Hong Kong under the provision of Part XI of the Companies Ordinance. Ms. Ngai Lin Ying, the company secretary of Newco, and Mr. Lawrence H. Wood, an executive director of Newco, have been authorised to accept service of process and notices on behalf of Newco in Hong Kong.
- (b) Newco has not carried on any business since its incorporation and has not entered into any material contracts or agreements.
- (c) As at the Latest Practicable Date, Newco had no outstanding mortgages, charges, debentures or other loan capital, bank overdraft, loans or other similar indebtedness or any hire purchase commitments or any guarantees or other contingent liabilities. Please refer to the paragraphs headed “Indebtedness” and “Liquidity, financial resources and capital structure” in Appendix I to this document for the financial information of the Group.
- (d) Other than its directors, Newco presently has one employee.
- (e) As at the Latest Practicable Date, Newco was not engaged in any litigation or arbitration, and no litigation or claim is known to the directors of Newco to be pending or threatened against Newco.
- (f) Since Newco is not a company incorporated in Hong Kong, the Newco Shares do not fall into the categories of investments specified in the Second Schedule to the Trustee Ordinance, Chapter 29 of the Laws of Hong Kong, as authorised by such Ordinance for investment by trustees whose investment powers are limited to those specified therein.
- (g) Assuming the implementation of the Scheme and based on the arrangement presently in force, the aggregate of the remuneration payable by Newco to the directors of Newco in respect of the year ended 31 December 2004 is expected to be approximately HK\$780,000.
- (h) The directors of Newco have been advised that the implementation of the Scheme is not expected to expose the Group to any material adverse liability to Hong Kong estate duty.
- (i) None of the directors of Newco and the Investment Manager or any of their respective associates, will be entitled to receive any part of any brokerage charged to Newco or allowance of other types on purchases charged to Newco.

**I. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared based on the unaudited net tangible assets of the Group as at 30 June 2004. It has been prepared to show the effect on the unaudited net tangible assets of the Group as at 30 June 2004 as if both the Scheme and the Subscription had occurred on 30 June 2004. It has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group.

	<b>Unaudited consolidated net tangible assets of the Group as at 30 June 2004</b>	<b>Adjustments (Note 1)</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group upon completion of the Scheme and the Subscription</b>	<b>Unaudited pro forma adjusted consolidated net tangible asset value per Newco Share immediately after completion of the Scheme and the Subscription (Note 2)</b>
<i>In HK\$'000</i>	176,405	13,664	190,069	HK\$0.294

*Notes:*

1. Based on the estimated expenses of the Scheme of approximately HK\$2.1 million less HK\$0.8 million already incurred by the Company prior to 30 June 2004 and the net proceeds of approximately HK\$14.9 million under the Subscription.
2. Based on 647,114,000 Newco Shares in issue upon completion of the Scheme and the Subscription.



**II. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong for the purpose of incorporation in this document.*



The Directors  
New Capital International Investment Limited  
35/F., One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

13 January 2005

Dear Sirs,

**New Capital International Investment Limited (“Newco”)**

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (“Unaudited Pro Forma Financial Information”) set out on page 69 in Part I of Appendix III “Financial Information” to the document dated 13 January 2005 (“the Document”) issued in connection with the reorganisation proposal whereby ING Beijing Investment Company Limited (“the Company”) will become a wholly-owned subsidiary of Newco to be implemented by way of a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance (“the Scheme”). The Unaudited Pro Forma Financial Information has been prepared by Newco solely for illustrative purposes to provide information about how the Scheme and the subscription for 107,600,000 shares of the Company by Sense Control International Limited (collectively “the Transactions”) might have affected the unaudited consolidated net tangible assets of the Company and its subsidiaries as at 30 June 2004. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in notes 1 and 2 on page 69 of Part I of Appendix III of the Document.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of Newco to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 'Reporting on Unaudited Pro Forma financial information pursuant to the Listing Rules' issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of Newco.

Our work did not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and, because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

- Newco and its subsidiaries had the Transactions actually occurred on 30 June 2004; or
- Newco and its subsidiaries at any future date or for any future periods.

**OPINION**

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of Newco; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,  
**KPMG**  
*Certified Public Accountants*

## III. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below are summaries of the audited consolidated income statements of the Group for the three financial years ended 31 December 2003 and the audited consolidated balance sheets of the Group as at 31 December 2001, 2002 and 2003 and the notes thereto extracted from such audited financial statements of the Group.

**Consolidated income statement**

		For the year ended 31 December		
	Note	2003	2002	2001
Turnover: Group and share of jointly controlled entities' turnover	3	\$ 49,293,541	\$ 93,910,913	\$ 95,521,951
Less: Share of jointly controlled entities' turnover		<u>(46,860,690)</u>	<u>(86,586,919)</u>	<u>(94,447,980)</u>
Group turnover	2	\$ 2,432,851	\$ 7,323,994	\$ 1,073,971
Other net loss	4(a)	(2,882)	(15,536)	(7,240)
Gain on disposal of interest in jointly controlled entity	4(c) & 11	2,064,532	-	-
Write-back of amount due from jointly controlled entity	11	1,528,897	-	-
Gain on disposal of non-trading listed investments	4(f)	6,013,708	2,714,000	-
Gain on deemed disposal of subsidiaries	10	-	5,506,894	-
Consideration for cancellation of investment agreements	11	-	16,301,103	-
Provision for amount due from jointly controlled entity	11	-	-	(19,197,572)
Write-back of/(provision for) impairment losses on non-trading investments	4(g)	16,240,360	(35,857,021)	(125,800,516)
Loss on disposal of convertible loan and non-trading unlisted investments	4(d) & (e)	-	(328,645)	-
Provision for convertible loan	14	-	-	(49,382,247)
Operating expenses	4(b)	<u>(7,846,444)</u>	<u>(15,579,297)</u>	<u>(15,567,997)</u>
Profit/(loss) from operations	4	\$ 20,431,022	\$ (19,934,508)	\$ (208,881,601)
Share of losses of associates		(13,810,728)	(963,800)	-
Share of profits of jointly controlled entities		1,754,967	1,029,042	1,000,476
Profit/(loss) from ordinary activities before taxation		\$ 8,375,261	\$ (19,869,266)	\$ (207,881,125)
Income tax	5(a)	<u>(193,962)</u>	<u>(121,150)</u>	<u>723,989</u>
Profit/(loss) attributable to shareholders	17(a)	<u>\$ 8,181,299</u>	<u>\$ (19,990,416)</u>	<u>\$ (207,157,136)</u>
Earnings/(loss) per share				
Basic	8	<u>1.52 cents</u>	<u>(3.71 cents)</u>	<u>(38.44 cents)</u>

## Consolidated balance sheet

	Note	As at 31 December		
		2003	2002	2001
<b>Non-current assets</b>				
Interest in associates	10	\$ 63,617,196	\$ 78,923,038	\$ –
Interest in jointly controlled entities	11	29,234,376	27,780,064	27,008,268
Non-trading investments	12	44,497,050	35,111,580	83,653,761
Investment deposit	13	35,000,000	–	–
		<u>\$ 172,348,622</u>	<u>\$ 141,814,682</u>	<u>\$ 110,662,029</u>
<b>Current assets</b>				
Current portion of convertible loan	14	\$ –	\$ –	\$ 47,500,000
Prepayments and other receivables		1,525,093	197,119	93,997
Cash and cash equivalents	15	14,470,509	31,629,055	20,381,864
		<u>\$ 15,995,602</u>	<u>\$ 31,826,174</u>	<u>\$ 67,975,861</u>
<b>Current liabilities</b>				
Accounts payable and accruals		\$ 1,617,495	2,015,321	2,298,788
Current taxation	5(c)	5,000,000	5,000,000	5,000,000
		<u>\$ 6,617,495</u>	<u>\$ 7,015,321</u>	<u>\$ 7,298,788</u>
<b>Net current assets</b>		<u>\$ 9,378,107</u>	<u>\$ 24,810,853</u>	<u>\$ 60,677,073</u>
<b>Net assets</b>		<u>\$ 181,726,729</u>	<u>\$ 166,625,535</u>	<u>\$ 171,339,102</u>
<b>Capital and reserves</b>				
Share capital	16	\$ 53,951,400	\$ 53,951,200	\$ 53,951,200
Reserves	17(a)	127,775,329	112,674,335	117,387,902
		<u>\$ 181,726,729</u>	<u>\$ 166,625,535</u>	<u>\$ 171,339,102</u>
<b>Net asset value per share</b>	18	<u>\$ 0.337</u>	<u>\$ 0.309</u>	<u>\$ 0.318</u>

## Balance sheet

	Note	As at 31 December		
		2003	2002	2001
<b>Non-current assets</b>				
Interest in subsidiaries	9	\$ 86,909,620	\$ 66,176,773	\$ 177,580,216
Interest in associates	10	77,991,980	77,968,123	–
		<u>\$ 164,901,600</u>	<u>\$ 144,144,896</u>	<u>\$ 177,580,216</u>
<b>Current assets</b>				
Prepayments and other receivables		\$ 1,384,404	\$ 138,849	\$ 93,997
Cash and cash equivalents	15	14,461,282	31,613,245	20,368,572
		<u>\$ 15,845,686</u>	<u>\$ 31,752,094</u>	<u>\$ 20,462,569</u>
<b>Current liabilities</b>				
Accounts payable and accruals		1,574,970	1,890,828	1,874,169
<b>Net current assets</b>		<u>\$ 14,270,716</u>	<u>\$ 29,861,266</u>	<u>\$ 18,588,400</u>
<b>Net assets</b>		<u>\$ 179,172,316</u>	<u>\$ 174,006,162</u>	<u>\$ 196,168,616</u>
<b>Capital and reserves</b>				
Share capital	16	\$ 53,951,400	\$ 53,951,200	\$ 53,951,200
Reserves	17(b)	125,220,916	120,054,962	142,217,416
		<u>\$ 179,172,316</u>	<u>\$ 174,006,162</u>	<u>\$ 196,168,616</u>

## Consolidated statement of changes in equity

	Note	For the year ended 31 December		
		2003	2002	2001
Shareholders' equity at 1 January		\$ <u>166,625,535</u>	\$ <u>171,339,102</u>	\$ <u>317,619,334</u>
Surplus on revaluation of non-trading investments	17	\$ 24,785,470	\$ 15,414,840	\$ –
Exchange differences on translation of financial statements of jointly controlled entities in the People's Republic of China ("PRC")	17	(106,693)	(136,096)	186,775
Share of exchange and other reserves of associates	17	<u>(1,518,971)</u>	<u>(1,895)</u>	<u>–</u>
Net gains not recognised in the consolidated income statement		\$ <u>23,159,806</u>	\$ <u>15,276,849</u>	\$ <u>186,775</u>
Net profit/(loss) for the year		\$ <u>8,181,299</u>	\$ <u>(19,990,416)</u>	\$ <u>(207,157,136)</u>
Reversal of revaluation deficit on non-trading investments previously charged to the consolidated income statement as impairment loss	17	\$ <u>(16,240,360)</u>	\$ <u>–</u>	\$ <u>–</u>
Revaluation deficit charged against investment revaluation reserve in the previous year included in the consolidated income statement for the year	17	\$ <u>–</u>	\$ <u>–</u>	\$ <u>60,539,332</u>
Movements in share capital:				
– Shares issued upon exercise of warrants		\$ 200	\$ –	\$ 67,200
– Net share premium received		<u>249</u>	<u>–</u>	<u>83,597</u>
		\$ <u>449</u>	\$ <u>–</u>	\$ <u>150,797</u>
Shareholders' equity at 31 December		\$ <u><u>181,726,729</u></u>	\$ <u><u>166,625,535</u></u>	\$ <u><u>171,339,102</u></u>

## Consolidated cash flow statement

	Note	For the year ended		
		2003	31 December 2002	2001
<b>Operating activities</b>				
Profit/(loss) from ordinary activities before taxation	\$	8,375,261	\$ (19,869,266)	\$ (207,881,125)
Adjustments for:				
– Interest income		(291,901)	(898,474)	(1,073,971)
– Dividend income from listed investments		(2,140,950)	(6,425,520)	–
– Gain on disposal of interest in jointly controlled entity		(2,064,532)	–	–
– Write-back of amount due from jointly controlled entity		(1,528,897)	–	–
– Gain on deemed disposal of subsidiaries		–	(5,506,894)	–
– Consideration for cancellation of investment agreements		–	(16,301,103)	–
– Provision for amount due from jointly controlled entity		–	–	19,197,572
– (Write-back of)/provision for impairment losses on non-trading investments		(16,240,360)	35,857,021	125,800,516
– Provision for convertible loan		–	–	49,382,247
– Loss on disposal of convertible loan and non-trading unlisted investments		–	328,645	–
– Gain on disposal of non-trading listed investments		(6,013,708)	(2,714,000)	–
– Share of losses of associates		13,810,728	963,800	–
– Share of profits of jointly controlled entities		(1,754,967)	(1,029,042)	(1,000,476)
<b>Operating loss before changes in working capital</b>	\$	<b>(7,849,326)</b>	\$ <b>(15,594,833)</b>	\$ <b>(15,575,237)</b>
(Increase)/decrease in prepayments and other receivables		(1,339,380)	(103,122)	186,320
(Decrease)/increase in accounts payable and accruals		(397,826)	(283,467)	488,265
(Decrease)/increase in amount due to associate		(23,857)	31,885	–
<b>Cash used in operating activities</b>	\$	<b>(9,610,389)</b>	\$ <b>(15,949,537)</b>	\$ <b>(14,900,652)</b>
Hong Kong profits tax refunded		–	–	570,395
<b>Net cash used in operating activities</b>	\$	<b>(9,610,389)</b>	\$ <b>(15,949,537)</b>	\$ <b>(14,330,257)</b>

		For the year ended		
		31 December		
	<i>Note</i>	2003	2002	2001
<b>Investing activities</b>				
Interest received		\$ 303,307	\$ 898,474	\$ 1,129,391
Dividends received from listed investments		2,140,950	6,425,520	–
Payment for purchase of associates		–	(74,413,724)	–
Proceeds from sale of interest in jointly controlled entity, net of expenses		2,064,532	–	–
Proceeds from sale of convertible loan, net of expenses		–	47,315,310	–
Proceeds from sale of non-trading unlisted investments, net of expenses		–	356,045	–
Proceeds from sale of non-trading listed investments, net of expenses		21,413,708	30,314,000	–
Amount repaid by jointly controlled entity		1,528,897	16,301,103	–
Acquisition of non-trading unlisted investments		–	–	(25,997)
Payment for investment deposit		(35,000,000)	–	–
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net cash (used in)/generated from investing activities</b>		\$ <u><u>(7,548,606)</u></u>	\$ <u><u>27,196,728</u></u>	\$ <u><u>1,103,394</u></u>
<b>Financing activities</b>				
Exercise of warrants		\$ <u>449</u>	\$ <u>–</u>	\$ <u>150,797</u>
<b>Net cash from financing activities</b>		\$ <u><u>449</u></u>	\$ <u><u>–</u></u>	\$ <u><u>150,797</u></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		\$ (17,158,546)	\$ 11,247,191	\$ (13,076,066)
<b>Cash and cash equivalents at 1 January</b>		<u>31,629,055</u>	<u>20,381,864</u>	<u>33,457,930</u>
<b>Cash and cash equivalents at 31 December</b>	<i>15</i>	<u><u>\$ 14,470,509</u></u>	<u><u>\$ 31,629,055</u></u>	<u><u>\$ 20,381,864</u></u>



**Notes on the financial statements****1. Significant accounting policies****(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKSE”). A summary of the significant accounting policies adopted by the Group is set out below.

**(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain non-trading securities as explained in the accounting policies set out below.

**(c) Subsidiaries**

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company’s balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

**(d) Associates and jointly controlled entities**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's and jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate and jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investment in associates and jointly controlled entities are stated at cost less impairment losses (see note 1(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

**(e) Goodwill**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(h)).

In respect of acquisitions of associates or jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(h)) is included in the carrying amount of the interest in associates and jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

**(f) Other investments**

- (i) Investments held for trading are stated in the consolidated balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.
- (ii) Non-trading investments are stated in the consolidated balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the investment is sold, collected, or otherwise disposed of, or until there is objective evidence that the investment is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.
- (iii) Transfers from the investment revaluation reserve to the consolidated income statement as a result of impairments are reversed when the circumstances and events that led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits or losses on disposal of investments are accounted for in the consolidated income statement as they arise. In the case of non-trading investments, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that investment.

**(g) Convertible loan**

Convertible loan represents loan principal outstanding together with accrued interest less any provisions considered necessary by the directors.

**(h) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investments in subsidiaries, associates and jointly controlled entities may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(j) **Income tax**

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
  - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(k) Revenue recognition**

*Interest income*

Interest income from bank deposits and convertible loan is accrued on a time-apportioned basis by reference to the principal outstanding and the applicable rates of interest.

*Dividends*

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

**(l) Legal and establishment fees**

Legal and establishment fees relating to the convertible loan granted is amortised to the income statement over a period of three years.

**(m) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of PRC subsidiaries, associates and jointly controlled entities are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of an associate and a jointly controlled entity, the cumulative amount of the exchange differences which relate to that associate and jointly controlled entity is included in the calculation of the profit or loss on disposal.

**(n) Related parties**

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

**(o) Segment reporting**

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment and are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses.

## 2. Turnover

The principal activity of the Company and of its subsidiaries is the holding of equity and a convertible debt investments primarily in companies or entities with significant business interests or involvement in the People's Republic of China ("the PRC"). In particular, the Group focused on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC.

Share of jointly controlled entities' turnover represents the Group's share of jointly controlled entities' invoiced value of goods sold.

Group turnover represents interest income and dividend income from listed investments. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003	2002	2001
Interest income from deposits with banks and other financial institutions	\$ 291,901	\$ 898,474	\$ 1,073,971
Dividend income from listed investments	<u>2,140,950</u>	<u>6,425,520</u>	<u>–</u>
	<u>\$ 2,432,851</u>	<u>\$ 7,323,994</u>	<u>\$ 1,073,971</u>

## 3. Segmental information

Segmental information is presented in respect of the Group's business segments which are based on the nature of business of its associates, jointly controlled entities and other investee companies. No geographical segment information is presented as the revenue of the Group, its associates and jointly controlled entities and the Group's results were substantially derived from the PRC.

The Group's associates, jointly controlled entities and other investee companies comprise the following main business segments:

Manufacture of industrial products: Electronic and electrical instruments, plywood and timber products.

Manufacture of consumer products: Audio-visual products and ceramic tiles.



Communications: Provision of paging, internet content, software and solutions and paid e-mail services and offline magazine publishing.

Real estate: Development of residential and commercial properties for sale.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results, assets and liabilities include only those relating to the Group.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results, assets and liabilities include only those relating to the Group.

	Segment revenue Group and share of jointly controlled entities' turnover			Segment results Contribution to profit/(loss) from ordinary activities before taxation		
	2003	2002	2001	2003	2002	2001
Manufacture of industrial products	\$ 46,860,690	\$ 86,586,919	\$ 94,447,980	\$ 4,204,259	\$ 16,037,926	\$ (20,622,647)
Manufacture of consumer products	2,140,950	6,425,520	-	23,699,981	8,281,297	(97,474,074)
Communications	-	-	-	(403,009)	(37,035,235)	(83,214,030)
Real estate	-	-	-	(14,235,609)	(705,687)	-
Unallocated	291,901	898,474	1,073,971	(4,890,361)	(6,447,567)	(6,570,374)
	<u>\$ 49,293,541</u>	<u>\$ 93,910,913</u>	<u>\$ 95,521,951</u>	<u>\$ 8,375,261</u>	<u>\$ (19,869,266)</u>	<u>\$ (207,881,125)</u>
	Segment assets			Segment liabilities		
	2003	2002	2001	2003	2002	2001
Manufacture of industrial products	\$ 29,234,376	\$ 27,780,064	\$ 27,008,268	\$ -	\$ -	\$ -
Manufacture of consumer products	44,497,050	35,111,580	94,796,740	-	-	-
Communications	-	-	36,357,021	-	-	-
Real estate	98,617,196	78,923,038	-	-	-	-
Unallocated	15,995,602	31,826,174	20,475,861	(6,617,495)	(7,015,321)	(7,298,788)
	<u>\$ 188,344,224</u>	<u>\$ 173,640,856</u>	<u>\$ 178,637,890</u>	<u>(6,617,495)</u>	<u>(7,015,321)</u>	<u>(7,298,788)</u>
	Write-back of/(provision for) impairment losses and provision			Capital expenditure incurred		
	2003	2002	2001	2003	2002	2001
Manufacture of industrial products	\$ -	\$ -	\$ (19,197,572)	\$ -	\$ -	\$ -
Manufacture of consumer products	16,240,360	-	(94,550,139)	-	-	-
Communications	-	(35,857,021)	(80,632,624)	-	-	-
Real estate	\$ -	\$ -	\$ -	\$ 35,000,000	\$ 74,413,724	\$ -
	<u>\$ 16,240,360</u>	<u>\$ (35,857,021)</u>	<u>\$ (194,380,335)</u>	<u>\$ 35,000,000</u>	<u>\$ 74,413,724</u>	<u>\$ -</u>

**4. Profit/(loss) from operations**

Profit/(loss) from operations is arrived at after charging/(crediting):

	<b>2003</b>	<b>2002</b>	<b>2001</b>
(a) Other net loss			
Net exchange loss	\$ 2,882	\$ 115,536	\$ 7,240
Others	—	(100,000)	—
	<u>\$ 2,882</u>	<u>\$ 15,536</u>	<u>\$ 7,240</u>
(b) Operating expenses			
Administrative fee ( <i>Note</i> )	\$ 690,000	\$ 690,000	\$ 690,000
Audit fee	610,000	600,000	550,000
Consultancy fee	89,661	226,368	371,132
Custodian fee	150,000	240,000	240,000
Legal and secretarial fees	885,912	4,119,988	1,631,015
Management fee ( <i>Note</i> )	2,414,581	4,527,374	7,422,639
Project fee	267,798	544,129	672,010
Other operating expenses	2,738,492	4,631,438	3,991,201
	<u>\$ 7,846,444</u>	<u>\$ 15,579,297</u>	<u>\$ 15,567,997</u>

*Note:* Administrative fee is paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V., pursuant to the agreements as disclosed in the directors' report. ING Groep N.V. is a substantial shareholder of the Company.

Management fee is paid to Baring Capital (China) Management Limited ("BCCM") pursuant to the terms of the agreements as disclosed in the directors' report. BCCM is also a wholly owned subsidiary of ING Groep N.V.

**(c) Gain on disposal of interest in jointly controlled entity**

Everbright Timber Industry (Shenzhen)  
Company Limited

Sale proceeds, net of expenses	\$ (2,064,532)	\$ —	\$ —
Carrying value of investment	—	—	—
	<u>\$ (2,064,532)</u>	<u>\$ —</u>	<u>\$ —</u>

## (d) Loss on disposal of non-trading unlisted investments

*Skynet Limited*

	2003	2002	2001
Sale proceeds, net of expenses	\$ –	\$ (356,045)	\$ –
Carrying value of investment	–	500,000	–
	<u>–</u>	<u>500,000</u>	<u>–</u>
	<u>\$ –</u>	<u>\$ 143,955</u>	<u>\$ –</u>

## (e) Loss on disposal of convertible loan

*Companion-China Limited*

Sale proceeds, net of expenses	\$ –	\$(47,315,310)	\$ –
Carrying value of convertible loan	–	47,500,000	–
	<u>–</u>	<u>47,500,000</u>	<u>–</u>
	<u>\$ –</u>	<u>\$ 184,690</u>	<u>\$ –</u>

## (f) Gain on disposal of non-trading listed investments

*Skyworth Digital Holdings Limited*

Sales proceeds, net of expenses	\$(21,413,708)	\$(30,314,000)	\$ –
Carrying value of investment	15,400,000	27,600,000	–
	<u>15,400,000</u>	<u>27,600,000</u>	<u>–</u>
	<u>\$ (6,013,708)</u>	<u>\$ (2,714,000)</u>	<u>\$ –</u>

## (g) (Write-back of)/provision for impairment losses on non-trading investments

Skyworth Digital Holdings Limited	\$(16,240,360)	\$ –	\$ 45,167,892
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	–	12,299,130	18,448,695
ChinaGo Limited	–	23,557,891	–
Skynet Limited	–	–	62,183,929
	<u>–</u>	<u>–</u>	<u>62,183,929</u>
	<u>\$ (16,240,360)</u>	<u>\$ 35,857,021</u>	<u>\$ 125,800,516</u>

## 5. Income tax

(a) Taxation in the consolidated income statement represents:

	2003	2002	2001
Provision for Hong Kong profits tax for the year	\$ -	\$ -	\$ -
Over-provision in respect of prior years	<u>-</u>	<u>-</u>	<u>(786,532)</u>
	\$ -	\$ -	\$ (786,532)
Share of jointly controlled entities' taxation	<u>193,962</u>	<u>121,150</u>	<u>62,543</u>
	<u>\$ 193,962</u>	<u>\$ 121,150</u>	<u>\$ (723,989)</u>

No provision for Hong Kong profits tax has been made for the years ended 31 December 2003, 2002 and 2001 as the Group has no assessable profits for the respective year.

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2003	2002	2001
Profit/(loss) before tax	<u>\$ 8,375,261</u>	<u>\$ (19,869,266)</u>	<u>\$ (207,881,125)</u>
Notional tax on profit before tax calculated at the rates applicable to profits in the countries concerned	\$ 1,233,296	\$ (3,096,759)	\$ (33,180,942)
Tax effect of non-deductible expenses	3,459,534	7,796,220	33,592,891
Tax effect of non-taxable revenue	(5,235,916)	(5,342,329)	(349,406)
Tax effect of unused tax losses not recognised	737,048	764,018	-
Overprovision in respect of prior years	<u>-</u>	<u>-</u>	<u>(786,532)</u>
Actual tax expense	<u>\$ 193,962</u>	<u>\$ 121,150</u>	<u>\$ (723,989)</u>

In March 2003, the Hong Kong Government announced an increase in Hong Kong profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements.

(c) Taxation in the consolidated balance sheet represents balance of provision for Hong Kong profits tax relating to the prior years.

- (d) The Group has not recognised deferred tax assets in respect of the Group's share of tax losses of \$4,548,684 (2002: \$2,315,206; 2001: Nil) incurred by its associates. The tax losses will expire during 2007 to 2008.

## 6. Directors' remuneration

- (a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002	2001
Fees	\$ 131,671	\$ 173,260	\$ 160,000
Salaries and other emoluments	<u>660,000</u>	<u>660,000</u>	<u>660,000</u>
	<u>\$ 791,671</u>	<u>\$ 833,260</u>	<u>\$ 820,000</u>

No remuneration was paid to the non-executive directors of the Company.

The remuneration of each of the directors is within the band of \$Nil – \$1,000,000.

The above emoluments do not include the value of share options granted to certain directors under the Company's share option scheme. The details of these benefits in kind are disclosed in note 16 on the financial statements.

- (b) Individuals with highest emoluments

The five highest paid individuals are all directors of the Group whose emoluments have been disclosed in note (a) above.

## 7. Profit/(loss) attributable to shareholders

The consolidated profit/(loss) attributable to shareholders includes a profit of \$5,165,705 (2002: loss of \$22,162,454; 2001: loss of \$234,585,828) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2003	2002	2001
Amount of consolidated profit/(loss) attributable to shareholders dealt with in the Company's financial statements	\$ 5,165,705	\$ (22,162,454)	\$ (234,585,828)
Final dividends from subsidiaries attributable to the previous financial year, approved and paid during the year	<u>–</u>	<u>–</u>	<u>4,886,405</u>
Company's profit/(loss) for the year ( <i>note 17(b)</i> )	<u>\$ 5,165,705</u>	<u>\$ (22,162,454)</u>	<u>\$ (229,699,423)</u>

**8. Earnings/(loss) per share**

## (a) Basic

The calculation of basic earnings/(loss) per share is based on profit attributable to shareholders of \$8,181,299 (2002; loss of \$19,990,416; 2001: loss of \$207,157,136) on the weighted average number of 539,512,583 ((2002: 539,512,000; 2001: 538,945,041) ordinary shares in issue during the year.

## (b) Diluted

Diluted earnings per share is not shown for the years ended 31 December 2003, 2002 and 2001 as the potential ordinary shares were anti-dilutive.

**9. Interest in subsidiaries**

		The Company	
	2003	2002	2001
Unlisted shares, at cost	\$ 58	\$ 50	\$ 68
Amounts due from subsidiaries, net of provisions	86,909,562	66,176,723	177,580,160
Amounts due to subsidiaries	—	—	(12)
	<u>\$ 86,909,620</u>	<u>\$ 66,176,773</u>	<u>\$ 177,580,216</u>

The amounts due from subsidiaries comprise mainly advances to subsidiaries for investments in entities in the PRC including Hong Kong.

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

The following wholly owned subsidiaries are all private limited companies, incorporated in the British Virgin Islands and are intermediate investment holding companies. The class of shares held is ordinary. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

Name of subsidiary	Issued and paid up capital held by the Company
Ever Talent Investments Ltd.	1 ordinary share of US\$1
Kencheers Investments Ltd.	1 ordinary share of US\$1
Joint Cheer Investments Ltd.	1 ordinary share of US\$1
Pacific Investment Project Inc.	1 ordinary share of HK\$1
Pacific Equity Venture Inc.	1 ordinary share of HK\$1
Simonson International Development Ltd.	1 ordinary share of US\$1
Motion Technology Ltd.	1 ordinary share of US\$1
Mobile Office Investments Ltd.	1 ordinary share of US\$1
Success Journey Ltd.	1 ordinary share of US\$1

**10. Interest in associates**

	The Group			The Company		
	2003	2002	2001	2003	2002	2001
Unlisted shares, at cost	\$ -	-	\$ -	\$ 78,000,008	\$ 78,000,008	\$ -
Share of net assets	63,625,224	78,954,923	-	-	-	-
Amount due to associate	(8,028)	(31,885)	-	(8,028)	(31,885)	-
	<u>\$ 63,617,196</u>	<u>78,923,038</u>	<u>\$ -</u>	<u>\$ 77,991,980</u>	<u>\$ 77,968,123</u>	<u>\$ -</u>

Additional information in respect of the Group's associates is given as follows:

	2003	2002	2001
	\$'000	\$'000	\$'000
Non-current assets	12,889	13,092	-
Current assets	250,928	160,899	-
Current liabilities	(23,857)	(23,259)	-
Non-current liabilities	(118,491)	-	-
Total turnover	-	-	-
Total losses before taxation	26,367	5,264	-
Group's share of losses before taxation	13,811	964	-
Group's share of associates' contingent liabilities	-	-	-
Group's share of associates' capital commitments (note 19(a))	<u>65,751</u>	<u>62,591</u>	<u>-</u>

The following list contains only the particulars of associates, all of which are unlisted companies, which principally affected the results or assets of the Group.

Name of the associate	Place of incorporation/ establishment	Particulars of issued capital	Proportion of ownership interest held by		Principal activity
			The Company	The Group	
China Property Development (Holdings) Limited	Cayman Islands	3,667 shares of US\$0.01 each, <i>(note)</i>	30%	–	Investment holding
Sound Advantage Limited	British Virgin Islands (“BVI”)	1 ordinary share of US\$1	–	30%	Investment holding
Choice Capital Limited	BVI	1 ordinary share of US\$1	–	30%	Investment holding
World Lexus Pacific Limited	Hong Kong	1,000,000 ordinary shares of \$1 each	–	24%	Investment holding
Beijing Pacific Palace Real Estate Development Co Ltd	PRC	Registered and paid-up capital of US\$12,000,000	–	24%	Property development

*Note:* As at 31 December 2003, 1,100 shares held by the Group were fully paid up and the remaining 2,567 shares were partly called and paid up. The uncalled share capital amounted to US\$15,670,000.



China Property Development (Holdings) Limited (“CPDH”) was formerly a wholly owned subsidiary of the Group. The Group’s interest in CPDH was diluted to 30% when it issued new shares to China Property Development Fund Limited in October 2002. This resulted in a gain on deemed disposal of \$5,506,894 which was recognised in the consolidated income statement for the year ended 31 December 2002.

Sound Advantage Limited (“Sound Advantage”) and Choice Capital Limited (“Choice Capital”) are wholly owned subsidiaries of CPDH. They hold equity interests of 30% and 50% in World Lexus Pacific Limited (“World Lexus”) respectively.

World Lexus’s sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co Ltd (“Beijing Pacific Palace”). Beijing Pacific Palace was established in 2001 as a cooperative joint venture for an operating period of 50 years, by World Lexus and Beijing Jiangtaixiang Real Estate Development Co Ltd (“the PRC partner”). It is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC (“Pacific Town project”).

The total investment and registered capital of Beijing Pacific Palace are US\$30 million and US\$12 million respectively. Pursuant to the joint venture agreement dated 28 November 2000, World Lexus is entitled to all the profits of Beijing Pacific Palace and the PRC partner is only entitled to a land compensation fee amounting to RMB45,100,000 (equivalent to \$42.5 million) payable in four instalments within two years from the date of agreement. Up to 31 December 2003, RMB10 million (equivalent to \$9.4 million) has been paid. The Company’s directors consider that no penalty will be payable as a result of the delay in the payment of the land compensation fee to the PRC partner.

The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and villas. The development of the project will be carried out in several phases. The project has a total gross floor area in excess of 240,000 square metres. Phase I of the project of approximately 80,000 square metres of luxury fitted apartments is planned to start sale in July 2004.

During the year ended 31 December 2003, Beijing Pacific Palace has obtained the planning approval, construction land use planning permit as well as resettlement permit from the relevant government authorities. Resettlement has commenced and is expected to be completed by the end of May 2004.

Subsequent to 31 December 2003, CPDH entered into negotiations with the minority shareholders of World Lexus, the company which owns 100% of the Pacific Town project, to acquire the 20% equity interest in World Lexus. Negotiations are still in progress as of the date these financial statements are authorised for issue by the Company’s directors. In the event that the acquisition is executed, CPDH may be required to reimburse a certain amount of the preliminary costs of the Pacific Town project incurred by the minority shareholders prior to CPDH’s acquisition of the 80% equity interest in World Lexus in 2002. However, the amount is subject to agreement between CPDH and the minority shareholders and their

provision of adequate documentation and evidence to support the costs incurred. The Company's directors have confirmed with the directors of CPDH that neither CPDH nor Beijing Pacific Palace has an obligation to reimburse any preliminary costs to the minority shareholders as at 31 December 2003. Accordingly, any preliminary costs to be reimbursed will be accounted for on completion of the sale and purchase agreement together with the consideration for the purchase of the 20% interest in World Lexus.

Pursuant to the private placement memorandum of CPDH dated 13 September 2003, CPDH has appointed certain related parties of the Company to act as fund manager, project manager, advisor, administrator, marketing agent and placement agent. These related parties are either companies wholly owned by ING Groep N.V. or companies in which a director of the Company is a member of the senior management. During the year ended 31 December 2003, CPDH paid total fees of US\$2,654,247 (equivalent to \$20.7 million) (2002 and 2001: \$Nil) to these related parties.

In December 2003, CPDH obtained a convertible loan of US\$15 million (equivalent to \$117 million) from a subsidiary of Nan Fung Development Limited. The convertible loan carries an annual interest rate of 15.5% and is due for repayment on 2 December 2005. At the option of the lender, the loan may be convertible into shares of CPDH in accordance with a pre-determined conversion rate, on the earlier of i) 2 June 2005 or ii) four weeks after pre-sale or 1 month after the official sale of the Pacific Town project, whichever is earlier. The loan is secured by CPDH's 100% equity interests in Sound Advantage and Choice Capital and the 80% equity interests in World Lexus held by Sound Advantage and Choice Capital.

**11. Interest in jointly controlled entities**

	<b>2003</b>	<b>The Group 2002</b>	<b>2001</b>
Share of net assets	\$ 26,484,133	\$ 26,050,351	\$ 26,072,341
Amounts due from jointly controlled entities, net of provision	<u>2,750,243</u>	<u>\$ 1,729,713</u>	<u>935,927</u>
	<u><u>\$ 29,234,376</u></u>	<u><u>\$ 27,780,064</u></u>	<u><u>\$ 27,008,268</u></u>

Amounts due from jointly controlled entities (“JCE”) are unsecured, interest free and have no fixed terms of repayment. A full provision of \$19,197,572 was made against the amount due from a jointly controlled entity during the year ended 31 December 2001.

Additional information in respect of the Group’s JCE is given below. The 2002 and 2001 figures included the information of two JCEs, Beijing Far East Instrument Company Limited (“Beijing Far East”) and Everbright Timber Industry (Shenzhen) Company Limited (“SETI”). The information for 2003 relates to Beijing Far East only as SETI was disposed of in March 2003 as described below. The carrying value of Beijing North Star Hyundai Pipe Company Limited has been fully provided in the 1998 financial statements.

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Non-current assets	\$ 40,710	\$ 295,527	\$ 313,838
Current assets	88,269	303,955	298,633
Current liabilities	(53,310)	(582,479)	(544,311)
Non-current liabilities	–	–	(54,237)
Total turnover	101,680	330,293	366,609
Total losses before taxation	–	(18,915)	(47,952)
Total profits before taxation	5,014	2,940	2,859
Group’s share of profits less losses before taxation	1,755	1,029	1,000
Group’s share of JCE’s contingent liabilities	–	–	–
Group’s share of JCE’s capital commitments	<u>–</u>	<u>–</u>	<u>–</u>

Details of the indirectly held JCE as at 31 December 2003, all of which are sino-foreign joint venture companies incorporated and operating in the PRC, are as follows:

Name of joint venture	Proportion of ownership interest attributable to the Group	Registered capital	Principal activities
Beijing Far East Instrument Company Limited ("Beijing Far East")	35%	RMB151,926,184	Electronic and electrical instrument manufacturing
Beijing North Star Hyundai Pipe Company Limited	28%	US\$11,300,000	Pipe manufacturing

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group Limited pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East for a consideration of approximately RMB14 million (equivalent to \$13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 31 December 2003, the disposal has not been accounted for as the conditions have not been satisfied.

On 29 November 2002, the Company entered into a deed of cancellation with China Everbright Holdings Company Limited ("CE Holdings"), the ultimate holding company of SETI, to terminate certain agreements in respect of the Company's investment in SETI. Pursuant to the deed of cancellation, CE Holdings paid an amount of \$16,301,103 to the Group as consideration for the cancellation of the investment agreements ("Consideration"). The Consideration received was recognised as income in the consolidated income statement for the year ended 31 December 2002 as the carrying value of SETI had been fully written off in 2001.

During the year ended 31 December 2003, the Group disposed of its 22.87% equity interest in SETI for a cash consideration of \$2,170,000. As the carrying value of SETI was fully written off in 2001, the disposal resulted in a gain of \$2,064,532 (net of related expenses of \$105,468) which has been included in the consolidated income statement for the year ended 31 December 2003. In addition, the Group received an amount of \$1,528,897 representing a portion of the dividends declared by SETI in prior years. This has also been recognised as income in the consolidated income statement for the year ended 31 December 2003 as the dividends receivable from SETI were fully provided for in 2001.

## 12. Non-trading investments

	<i>Note</i>	<b>2003</b>	<b>The Group 2002</b>	<b>2001</b>
Investment in unlisted joint venture	(a)	\$ 61,495,650	\$ 61,495,650	\$ 61,495,650
Less: Impairment loss		<u>(61,495,650)</u>	<u>(61,495,650)</u>	<u>(49,196,520)</u>
		\$ -----	\$ -----	\$ 12,299,130
Investments in unlisted companies	(b)	\$ 23,557,891	\$ 23,557,891	\$ 86,241,820
Less: Impairment losses		<u>(23,557,891)</u>	<u>(23,557,891)</u>	<u>(62,183,929)</u>
		\$ -----	\$ -----	\$ 24,057,891
Listed investments	(c)	\$ 20,537,100	\$ 38,506,921	\$ 92,464,632
Less: Impairment losses		<u>                  -</u>	<u>(18,810,181)</u>	<u>(45,167,892)</u>
		\$ 20,537,100	\$ 19,696,740	\$ 47,296,740
Revaluation surplus		<u>23,959,950</u>	<u>15,414,840</u>	<u>                  -</u>
		\$ <u>44,497,050</u>	\$ <u>35,111,580</u>	\$ <u>47,296,740</u>
		\$ <u>44,497,050</u>	\$ <u>35,111,580</u>	\$ <u>83,653,761</u>

Details of the Group's non-trading investments are as follows:

Name of the company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest attributable to the Group	Principal activity
Beijing Asia Pacific First Star Communications Technology Co. Ltd.	PRC	PRC	Registered capital of US\$29,800,000	18%	Provision of paging services
ChinaGo Limited	Cayman Islands	PRC	5,611,110 ordinary shares of US\$0.01 each	10.44%	Offline magazine publishing, software and solutions, and paid email-services
Skyworth Digital Holdings Limited	Hong Kong	PRC	2,147,216,000 ordinary shares of \$0.10 each	1.092%	Manufacture and sale of audio-visual products

*Notes:*

- (a) This represents the Group's investment in an unlisted joint venture, Beijing Asia Pacific First Star Communications Technology Co. Ltd. ("APFS"). The cost of investment is approximately \$60.8 million (being the equivalent of US\$7.8 million) representing capital contribution for an 18 per cent equity interest in APFS and consideration for a technology co-operation agreement with one of the joint venture partners, together with the capitalised acquisition costs. At 31 December 2003, the other joint venture partners are Beijing Jingfang Economy Development Company and Beijing Asia Pacific Group. This joint venture is being accounted for as a non-trading investment as the Group does not have significant influence or joint control over its operations. An impairment loss of \$61,495,650 was made at 31 December 2002.
- (b) The amount represents the Group's investment of approximately \$23 million (being equivalent of US\$2.9 million) in ChinaGo Limited, in which the Group held an equity interest of 10.44%, together with the capitalised acquisition costs. An impairment loss of \$23,557,891 was made as at 31 December 2002.
- (c) The Group holds 22,819,000 ordinary shares of Skyworth Digital Holdings Limited ("Skyworth Digital"), a company listed on the HKSE. As at 31 December 2003, the shares were stated at their market value at \$1.95 per share as quoted on the HKSE. A revaluation surplus of \$24,785,470 has been transferred to investment revaluation reserve during the year ended 31 December 2003. An impairment loss was previously charged to the consolidated income statement for the year ended 31 December 2001. Following the directors' review of the operating results and share prices of Skyworth Digital in recent years, they consider an amount of \$16,240,360 should be written back. This was credited to the consolidated income statement for the year ended 31 December 2003 as reversal of impairment losses previously made.

**13. Investment deposit**

The amount represents a purchase consideration paid to acquire a 15% equity interest in a joint venture entity in the PRC. The PRC joint venture is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC. The completion of the acquisition is expected to take place in July 2004.

**14. Convertible loan**

	2003	The Group 2002	2001
Convertible loan	\$ –	\$ –	\$ 92,399,277
Interest receivable	–	–	4,482,970
	<u>–</u>	<u>–</u>	<u>96,882,247</u>
Less: Provision	–	–	(49,382,247)
	<u>–</u>	<u>–</u>	<u>47,500,000</u>
	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 47,500,000</u>

The convertible loan was repayable as follows:

	2003	2002	2001
Within one year	\$ –	\$ –	\$ 47,500,000
After one year but within two years	–	–	–
	<u>–</u>	<u>–</u>	<u>47,500,000</u>
	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 47,500,000</u>

The convertible loan was advanced to Companion-China Limited (“CC”), a subsidiary of Companion Building Material International Holdings Limited, the shares of which are listed on the HKSE.

In January 2001, the Group issued a repayment notice to CC to demand for full settlement. According to the notice, the first instalment in the amount of US\$6,924,853 was due for repayment on 1 May 2001 and the remaining portion of the loan plus accrued interest was due for repayment on or before 1 May 2002. CC failed to repay the final instalment due on 1 May 2001.

In February 2002, the Group disposed of its entire interest in the convertible loan to an independent third party for a consideration of \$47.5 million. A provision of \$49,382,247 has been made at 31 December 2001 to reflect the recoverable value of the convertible loan. As the carrying value of the loan had been written down to \$47.5 million at 31 December 2001, the loss on disposal of \$184,690 recorded in the consolidated income statement for the year ended 31 December 2002 represents legal costs incurred.

**15. Cash and cash equivalents**

	The Group			The Company		
	2003	2002	2001	2003	2002	2001
Deposits with banks and other financial institutions	\$ 13,890,347	\$ 30,778,303	\$ 19,479,626	\$ 13,890,347	\$ 30,778,303	\$ 19,479,626
Cash at bank and in hand	580,162	850,752	902,238	570,935	834,942	888,946
	<u>\$ 14,470,509</u>	<u>\$ 31,629,055</u>	<u>\$ 20,381,864</u>	<u>\$ 14,461,282</u>	<u>\$ 31,613,245</u>	<u>\$ 20,368,572</u>

**16. Share capital**

	2003		2002		2001	
	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount
<i>Authorised:</i>						
Ordinary shares of \$0.10 each	<u>1,200,000,000</u>	<u>\$ 120,000,000</u>	<u>1,200,000,000</u>	<u>\$ 120,000,000</u>	<u>1,200,000,000</u>	<u>\$ 120,000,000</u>
<i>Issued and fully paid:</i>						
At 1 January	539,512,000	\$ 53,951,200	539,512,000	\$ 53,951,200	538,840,000	\$ 53,884,000
Exercise of warrants	2,000	200	-	-	672,000	67,200
At 31 December	<u>539,514,000</u>	<u>\$ 53,951,400</u>	<u>539,512,000</u>	<u>\$ 53,951,200</u>	<u>539,512,000</u>	<u>\$ 53,951,200</u>

- (a) By an ordinary resolution passed at the extraordinary general meeting held on 16 August 2001, the Company's authorised share capital was increased to \$120,000,000 by the creation of an additional 400,000,000 ordinary shares of \$0.10 each, ranking *pari passu* with the existing shares of the Company.
- (b) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 16 August 2001, 107,768,000 warrants in the proportion of one warrant for every five existing shares held on 16 August 2001 were issued by the Company. The warrants may be converted into shares of \$0.10 each at the initial subscription price of \$0.2244 per share at any time from 16 August 2001 to 15 August 2003, both dates inclusive. During 2001, 672,000 ordinary shares were issued on exercise of 672,000 warrants. A total of 2,000 warrants were exercised during 2003. The remaining 107,094,000 warrants have lapsed on 15 August 2003.



- (c) The Company has a share option scheme under which the Board of Directors of the Company may grant options to employees of the Company and its subsidiaries, including directors, to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share. The subscription price will be the higher of:
- (i) the closing price of the shares of the Company as stated in the HKSE's daily quotation sheet on the date of grant (being a business day), and
  - (ii) the average closing price of the shares of the Company as stated in the HKSE's daily quotations sheets for the five business days immediately preceding the date of grant.

The number of outstanding options granted or outstanding is as follows:

Date options granted	Period during which options exercisable	Exercise price	Number of options granted during the year ended 31 December 2001 and outstanding at 31 December 2001	Number of options granted and outstanding at 31 December 2002	Cancelled during 2003	Number of options granted and outstanding at 31 December 2003
			31 December 2001	31 December 2002		31 December 2003
27 November 2001	28 May 2002 to 27 November 2004	0.298	21,555,600	21,555,600	(2,694,450)	18,861,150
11 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450	2,694,450	-	2,694,450
12 December 2001	28 May 2002 to 27 November 2004	0.3	2,694,450	2,694,450	(2,694,450)	-
			26,944,500	26,944,500	(5,388,900)	21,555,600

There were no options granted during the years ended 31 December 2003 and 2002. There were no options exercised during the three years ended 31 December 2003, 2002 and 2001.

## 17. Reserves

## (a) The Group

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2003	\$ 498,097,415	\$ 3,098,294	\$ 15,414,840	\$ (403,936,214)	\$ 112,674,335
Profit for the year	-	-	-	8,181,299	8,181,299
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	(106,693)	-	-	(106,693)
Share of exchange and other reserves of associates	-	(1,418)	-	(1,517,553)	(1,518,971)
Surplus on revaluation of non-trading investments	-	-	24,785,470	-	24,785,470
Shares issued from exercise of warrants	249	-	-	-	249
Transfer from income statement	-	-	(16,240,360)	-	(16,240,360)
At 31 December 2003	<u>\$ 498,097,664</u>	<u>\$ 2,990,183</u>	<u>\$ 23,959,950</u>	<u>\$ (397,272,468)</u>	<u>\$ 127,775,329</u>
At 1 January 2002	\$ 498,097,415	\$ 3,236,285	\$ -	\$ (383,945,798)	\$ 117,387,902
Loss for the year	-	-	-	(19,990,416)	(19,990,416)
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	(136,096)	-	-	(136,096)
Share of exchange reserve of associates	-	(1,895)	-	-	(1,895)
Net deficit on revaluation of non-trading investments	-	-	(20,442,181)	-	(20,442,181)
Transfer to income statement	-	-	35,857,021	-	35,857,021
At 31 December 2002	<u>\$ 498,097,415</u>	<u>\$ 3,098,294</u>	<u>\$ 15,414,840</u>	<u>\$ (403,936,214)</u>	<u>\$ 112,674,335</u>
At 1 January 2001	\$ 498,013,818	\$ 3,049,510	\$ (60,539,332)	\$ (176,788,662)	\$ 263,735,334
Loss for the year	-	-	-	(207,157,136)	(207,157,136)
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	186,775	-	-	186,775
Shares issued from exercise of warrants, net of expenses	83,597	-	-	-	83,597
Net deficit on revaluation of non-trading investments	-	-	(65,261,184)	-	(65,261,184)
Transfer to income statement	-	-	125,800,516	-	125,800,516
At 31 December 2001	<u>\$ 498,097,415</u>	<u>\$ 3,236,285</u>	<u>\$ -</u>	<u>\$ (383,945,798)</u>	<u>\$ 117,387,902</u>

The Group's accumulated losses include \$14,774,528 (2002: \$963,800; 2001: \$Nil) and \$40,354,525 (2002: \$163,248,179; 2001: \$164,156,071), being the accumulated losses attributable to associates and jointly controlled entities respectively.

**(b) The Company**

	<b>Share premium</b>	<b>Accumulated losses</b>	<b>Total</b>
At 1 January 2003	\$ 498,097,415	\$ (378,042,453)	\$ 120,054,962
Profit for the year	–	5,165,705	5,165,705
Shares issued from exercise of warrants	<u>249</u>	<u>–</u>	<u>249</u>
At 31 December 2003	\$ <u>498,097,664</u>	\$ <u>(372,876,748)</u>	\$ <u>125,220,916</u>
At 1 January 2002	\$ 498,097,415	\$ (355,879,999)	\$ 142,217,416
Loss for the year	<u>–</u>	<u>(22,162,454)</u>	<u>(22,162,454)</u>
At 31 December 2002	\$ <u>498,097,415</u>	\$ <u>(378,042,453)</u>	\$ <u>120,054,962</u>
At 1 January 2001	\$ 498,013,818	\$ (126,180,576)	\$ 371,833,242
Loss for the year	–	(229,699,423)	(229,699,423)
Shares issued from exercise of warrants, net of expenses	<u>83,597</u>	<u>–</u>	<u>83,597</u>
At 31 December 2001	\$ <u>498,097,415</u>	\$ <u>(355,879,999)</u>	\$ <u>142,217,416</u>

The application of the share premium is governed by Section 48B of the Hong Kong Companies Ordinance.

The exchange reserves and investment revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the translation of foreign currencies and revaluation of investments respectively.

The aggregate amount of reserves available for distribution to shareholders of the Company at 31 December 2003 was \$Nil (2002: \$Nil; 2001: \$Nil).

**18. Net asset value per share**

The net asset value per share is computed based on the consolidated net assets of \$181,726,729 (2002: \$166,625,535; 2001: \$171,339,102) and 539,514,000 shares (2002: 539,512,000; 2001: 539,512,000 shares) in issue as at 31 December 2003.

**19. Commitments****(a) Capital commitments**

At 31 December, the Group's share of an associate's capital commitments outstanding not provided for in the financial statements was as follows:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Authorised and contracted for	\$ 42,572,000	\$ 39,412,000	\$ –
Authorised but not contracted for	<u>23,179,000</u>	<u>23,179,000</u>	<u>–</u>
	<u>\$ 65,751,000</u>	<u>\$ 62,591,000</u>	<u>\$ –</u>

The above commitments represent costs to be incurred in respect of the Pacific Town project up to the commencement of pre-sale of properties to be developed in phase I.

**(b) At 31 December, the Group's share of an associate's total future minimum lease payments under non-cancellable operating leases was as follows:**

	<b>2003</b>	<b>2002</b>	<b>2001</b>
Within 1 year	\$ 261,379	\$ 208,831	\$ –
After 1 year but within 5 years	<u>–</u>	<u>208,831</u>	<u>–</u>
	<u>\$ 261,379</u>	<u>\$ 417,662</u>	<u>\$ –</u>

An associate of the Group leases a property under an operating lease. The lease runs for an initial period of two years, with an option to renew the lease when all terms are renegotiated. The lease does not include any contingent rentals.

**(c) In March 2002, CPDH, an associate of the Group entered into two separate joint venture agreements with certain parties in the PRC to establish two joint ventures which will be engaged in the development of residential properties and a golf community respectively in Beijing, the PRC. CPDH's total initial cost of investment in these two joint ventures is RMB82.7 million (equivalent to \$77.9 million) to be settled in three months after the issue of the business licences of the joint ventures. CPDH's attributable interest in each of the two joint ventures is 30%. CPDH has an option to further invest RMB97 million and RMB34.7 million (equivalent to \$91.3 million and \$32.7 million respectively) by way of shareholders' loans in the golf community and residential property projects respectively. Up to 31 December 2002, the joint ventures have not been established pending approval of the relevant local authorities.**

**20. Reorganisation**

The Company intends to reorganise its structure by means of a scheme of arrangement pursuant to section 166 of the Hong Kong Companies Ordinance (the "Scheme"). An announcement in relation to this proposed reorganisation was made by the Company on 9 October 2003. Pursuant to the Scheme, a new company incorporated in the Cayman Islands with limited liability ("Newco"), will become the new holding company of the Group and the Company will become a direct wholly-owned subsidiary of Newco. A document setting out the details of the Scheme ("Scheme Document") was submitted to the HKSE in October 2003. An updated Scheme Document has been submitted to the HKSE in April 2004 following the change in name of Newco. The Scheme has not been implemented as of the date these financial statements are authorised for issue by the Company's directors.

**21. Post balance sheet events**

*For the year ended 31 December 2003*

- (i) In February 2004, the Group sold 12,819,000 ordinary shares of Skyworth Digital at prices ranging from \$2.1 to \$2.425 per share for a total consideration of \$28,580,450, resulting in a gain of approximately \$17,043,000.
- (ii) Pursuant to a subscription agreement dated 14 April 2004, the Company agreed to place 107,600,000 new shares to an independent third party at a price of \$0.14 per share. The new shares shall rank pari passu in all respects with the existing issued shares of the Company. Completion of the allotment is scheduled to take place in June 2004.
- (iii) Subsequent to 31 December 2003, the Company's directors have approved a proposal to invest in the development of commercial properties at Taiyanggong Zone E in Beijing, the PRC. The proposed cost of investment is Rmb30,000,000 (equivalent to \$28,269,883).

*For the year ended 31 December 2002*

- (i) On 21 March 2003, a wholly owned subsidiary of the Company, Joint Cheer Investments Limited ("Joint Cheer"), entered into an agreement with Prime Win Profits Limited ("Prime Win"), an affiliate of CEIL. Pursuant to the agreement, Joint Cheer agreed to sell its 22.87% interest in SETI for a cash consideration of \$2,170,000. The sale was completed on 28 March 2003.

*For the year ended 31 December 2001*

- (i) Pursuant to a subscription agreement dated 28 January 2002, the Company agreed to place 107,768,000 new shares to an independent third party at a price of \$0.22 per share. The new shares shall rank pari passu in all respects with the existing issued shares of the Company. Completion of the allotment is scheduled to take place in July 2002.

- (ii) On 18 February 2002, the Company entered into a sales and purchase agreement with a subsidiary of New World Enterprises Holdings Limited pursuant to which, the Company agreed to sell its entire interest in a wholly owned subsidiary, Perfect Master Limited (“PML”) together with the shareholder’s loan due by PML to the Company for a cash consideration of \$47.5 million. PML was incorporated in early February 2002 to hold the convertible loan advanced to CC transferred from a fellow subsidiary at cost. The transaction was completed in March 2002.
- (iii) On 18 February 2002, the Company entered into a sales and purchase agreement with Wellington Equities Inc. pursuant to which, the Company agreed to sell its entire interest in a wholly owned subsidiary, Hidden Advantage Investments Limited (“HAIL”) together with the shareholder’s loan due by HAIL to the Company for a cash consideration of \$0.5 million. The sole asset of HAIL is a 5.33% equity interest in Skynet Limited, an internet content provider. The transaction was completed in March 2002.
- (iv) In March 2002, the Group entered into two separate co-operation agreements with certain parties in the PRC to form two joint ventures to develop two property projects in Beijing, the PRC. One of the projects is development of residential properties and the other is a golf community. The Group’s total initial cost of investment in these two projects is Rmb82.7 million (equivalent to \$78 million) to be settled in three months after the issue of the business licences of the joint ventures. The Group’s attributable interest in each of the two joint ventures is 30%. The Group has an option to further invest Rmb97 million and Rmb34.7 million (equivalent to \$91.7 million and \$32.8 million respectively) in the golf community and residential property projects respectively.
- (v) In March 2002, the Group disposed of 30,000,000 ordinary shares in Skyworth Digital at a price of \$0.5 each for a total consideration of \$15 million.
- (vi) In March 2002, the Group entered into a conditional agreement with Beijing Capital Group Limited pursuant to which, the Group agreed to sell its 9% equity interest in Beijing Far East Instrument Company Limited (“Far East”) for a consideration of approximately Rmb14 million (equivalent to \$13 million). The consideration is payable over a period of 5 years in 5 yearly instalments.

## 22. Change in accounting policy

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(j).

The adoption of the revised SSAP 12 had no significant effect on the Group’s results and net assets for the current and prior years.

### 23. Adoption of revised SSAPs

The following revised SSAPs issued by the HKSA, which became effective during 2002, were adopted for preparation of the Group's financial statements for the year ended 31 December 2001 and 2002:

- SSAP 1 (revised) "Presentation of financial statements"
- SSAP 15 (revised) "Cash flow statements"

#### *Adoption of SSAP 1 (revised) "Presentation of financial statements"*

In order to comply with revised requirements of SSAP 1 (revised), the Group adopts the new statement "consolidated statement of changes in equity" which replaces the "consolidated statement of recognised gains and losses" included in previous financial statements. The new statement reconciles the movement of key components of the shareholders' fund, including share capital, reserves and accumulated losses, from the beginning to end of the year.

#### *Adoption of SSAP 15 (revised) "Cash flow statements"*

The format of the consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

### 24. Related party transactions

During the three years ended 31 December 2003, the Group and its associates paid management fees and other expenses to certain related companies, the details of which are set out in note 4(b) and note 10 on the financial statements.

## IV. INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

Set out below are the unaudited interim results of the Group for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in the last financial year:

**Consolidated income statement***for the six months ended 30 June 2004 – unaudited**(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
<b>Turnover: Group and share of jointly controlled entities' turnover</b>	4	\$ 21,151,840	\$ 29,045,594
<b>Less: Share of jointly controlled entities' turnover</b>		<u>(20,684,741)</u>	<u>(28,636,655)</u>
<b>Group turnover</b>	3	\$ 467,099	\$ 408,939
<b>Other net loss</b>	5(a)	(407)	(989)
<b>Gain on disposal of non-trading listed investments</b>	2	16,938,629	–
<b>Gain on disposal of interest in jointly controlled entity</b>	2	–	2,064,532
<b>Write-back of amount due from jointly controlled entity</b>	2	–	1,528,897
<b>Write-back of impairment loss on non-trading investments</b>	2	–	13,273,890
<b>Operating expenses</b>	5(b)	<u>(4,912,891)</u>	<u>(4,704,149)</u>
<b>Profit from operations</b>	5	\$ 12,492,430	\$ 12,571,120
<b>Share of losses of associates</b>		(3,159,414)	(1,092,863)
<b>Share of (loss)/profit of jointly controlled entity</b>		<u>(2,326,647)</u>	<u>1,136,020</u>
<b>Profit from ordinary activities before taxation</b>	4	\$ 7,006,369	\$ 12,614,277
<b>Income tax</b>	6(a)	<u>–</u>	<u>(55,361)</u>
<b>Profit attributable to shareholders</b>	14	<u>\$ 7,006,369</u>	<u>\$ 12,558,916</u>
<b>Earnings per share</b>	7		
<b>Basic</b>		<u>1.299 cents</u>	<u>2.328 cents</u>



**Consolidated balance sheet***at 30 June 2004 – unaudited**(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>At 30 June 2004 (Unaudited)</b>	<b>At 31 December 2003 (Audited)</b>
<b>Non-current assets</b>			
Interest in associates	8	\$ 60,458,030	\$ 63,617,196
Interest in jointly controlled entities	9	25,058,996	29,234,376
Non-trading investments	10	20,500,000	44,497,050
Investment deposit	11	35,000,000	35,000,000
		<u>\$ 141,017,026</u>	<u>\$ 172,348,622</u>
<b>Current assets</b>			
Prepayments and other receivables		\$ 450,649	\$ 1,525,093
Cash and cash equivalents	12	38,299,371	14,470,509
		<u>\$ 38,750,020</u>	<u>\$ 15,995,602</u>
<b>Current liabilities</b>			
Accounts payable and accruals		\$ 2,944,739	\$ 1,617,495
Current taxation	6(a)	417,558	5,000,000
		<u>\$ 3,362,297</u>	<u>\$ 6,617,495</u>
<b>Net current assets</b>		<u>\$ 35,387,723</u>	<u>\$ 9,378,107</u>
<b>Net assets</b>		<u>\$ 176,404,749</u>	<u>\$ 181,726,729</u>
<b>Capital and reserves</b>			
Share capital	13	\$ 53,951,400	\$ 53,951,400
Reserves	14	122,453,349	127,775,329
		<u>\$ 176,404,749</u>	<u>\$ 181,726,729</u>
<b>Net asset value per share</b>	15	<u>\$ 0.327</u>	<u>\$ 0.337</u>

**Consolidated statement of changes in equity**  
*for the six months ended 30 June 2004 – unaudited*  
*(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2004	2003
Shareholders' equity as at 1 January	\$ <u>181,726,729</u>	\$ <u>166,625,535</u>
Surplus/(deficit) on revaluation of non-trading investments	\$ 1,000,000	\$ (2,140,950)
Exchange differences on translation of financial statements of jointly controlled entities in the People's Republic of China ("PRC")	131,601	–
Share of exchange reserves of associates	<u>–</u>	<u>(780)</u>
Net gains/(losses) not recognised in the consolidated income statement	\$ <u>1,131,601</u>	\$ <u>(2,141,730)</u>
Net profit for the period	\$ <u>7,006,369</u>	\$ <u>12,558,916</u>
Revaluation surplus credited to the consolidated income statement on disposal of non-trading investments	\$ <u>(13,459,950)</u>	\$ <u>–</u>
Reversal of revaluation deficit on non-trading investments previously charged to the consolidated income statement as impairment loss	\$ <u>–</u>	\$ <u>(13,273,890)</u>
Shareholders' equity as at 30 June	\$ <u><u>176,404,749</u></u>	\$ <u><u>163,768,831</u></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30 June 2004 – unaudited**(Expressed in Hong Kong dollars)*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2004</b>	<b>2003</b>
Cash used in operations		\$ (531,122)	\$ (2,347,815)
Hong Kong profits tax paid		<u>(4,582,442)</u>	<u>–</u>
Net cash used in operating activities		\$ (5,113,564)	\$ (2,347,815)
Net cash from investing activities		<u>28,942,426</u>	<u>2,278,627</u>
Net increase/(decrease) in cash and cash equivalents		\$ 23,828,862	\$ (69,188)
Cash and cash equivalents at 1 January		<u>14,470,509</u>	<u>31,629,055</u>
Cash and cash equivalents at 30 June	<i>12</i>	<u>\$ 38,299,371</u>	<u>\$ 31,559,867</u>

**Notes on the unaudited interim financial report***(Expressed in Hong Kong dollars)***1 Significant accounting policies***Basis of preparation*

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is set out on pages 31 and 32. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

This interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (“HKSE”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issue of the 2003 annual financial statements.

**2 Gains on investments**

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
Gain on disposal of 12,819,000 shares of Skyworth Digital Holdings Limited	<i>10(c)</i>	\$ 16,938,629	\$ –
Gain on disposal of 22.87% interest in Everbright Timber Industry (Shenzhen) Company Limited		–	2,064,532
Write-back of amount due from jointly controlled entity		–	1,528,897
Write-back of impairment loss on Skyworth Digital Holdings Limited		–	13,273,890
		<u>–</u>	<u>13,273,890</u>

**3 Turnover**

The principal activity of the Company and of its subsidiaries is the holding of equity investments primarily in companies or entities with significant business interests or involvement in the PRC. In particular, the Group focuses on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC.

Share of jointly controlled entities' turnover represents the Group's share of jointly controlled entities' invoiced value of goods sold.

Group turnover represents interest income and dividend income from listed investments and is analysed as follows:

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2004</b>	<b>2003</b>
Interest income from deposits with banks and other financial institutions		\$ 10,719	\$ 194,844
Dividend income from listed investments		456,380	214,095
		<u>467,099</u>	<u>408,939</u>

**4 Segment reporting**

Segment information is presented in respect of the Group's business segments which are based on the nature of business of its associates, jointly controlled entities and other investee companies. No geographical segment information is presented as the revenue of the Group, its associates and jointly controlled entities and the Group's results were substantially derived from the PRC.

The Group's associates, jointly controlled entities and other investee companies comprise the following main business segments:

Manufacture of industrial products:	Electronic and electrical instruments, plywood and timber products.
Manufacture of consumer products:	Audio-visual products.
Communications:	Provision of paging, internet content, software and solution, paid e-mail services and offline magazine publishing.
Real estate:	Development of residential and commercial properties for sale.

Segment revenue includes the Group's share of jointly controlled entities' turnover. Segment results include only those relating to the Group.

	Revenue		Segment results	
	Group and Group's share of jointly controlled entities' turnover		Contribution to profit from ordinary activities before taxation	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
Manufacture of industrial products	\$ 20,684,741	\$ 28,636,655	\$ (2,794,355)	\$ 4,049,549
Manufacture of consumer products	456,380	214,095	17,089,473	13,178,984
Communications	—	—	—	(65,773)
Real estate	—	—	(4,286,113)	(1,949,609)
Unallocated	10,719	194,844	(3,002,636)	(2,598,874)
	<u>\$ 21,151,840</u>	<u>\$ 29,045,594</u>	<u>\$ 7,006,369</u>	<u>\$ 12,614,277</u>

## 5 Profit from operations

Profit from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004	2003
(a) Other net loss:		
Net exchange loss	\$ <u>(407)</u>	\$ <u>(989)</u>
(b) Operating expenses:		
Administrative fee ( <i>Note</i> )	\$ 343,114	\$ 342,164
Auditors' remuneration	350,000	345,000
Consultancy fee	—	100,961
Custodian fee	30,000	120,000
Legal and secretarial fees	435,809	365,685
Management fee ( <i>Note</i> )	2,024,522	1,938,376
Project fee	—	221,013
Other operating expenses	1,729,446	1,270,950
	<u>\$ 4,912,891</u>	<u>\$ 4,704,149</u>

*Note:* Administrative fee is paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V., pursuant to the agreements as disclosed in the 2003 directors' report. ING Groep N.V. is a substantial shareholder of the Company.

Management fee is paid to Baring Capital (China) Management Limited ("BCCM") pursuant to the terms of the agreements as disclosed in the 2003 directors' report. BCCM is also a wholly owned subsidiary of ING Groep N.V.

## 6 Income tax

- (a) No provision for Hong Kong Profits Tax has been made for the period ended 30 June 2004 as the Group has no assessable profits for the period ended 30 June 2004. Income tax in the consolidated income statement for the period ended 30 June 2003 represents share of jointly controlled entities' taxation for the prior period. Taxation in the consolidated balance sheet represents provision for Hong Kong Profits Tax relating to the prior periods.
- (b) The Group has not recognised deferred tax assets in respect of the Group's share of tax losses of \$6,782,499 (31 December 2003: \$4,548,684) sustained by its associates. The tax losses will expire during 2007 to 2009.

## 7 Earnings per share

### (a) Basic

The calculation of basic earnings per share is based on profit attributable to shareholders of \$7,006,369 (30 June 2003: \$12,558,916) and on 539,514,000 (30 June 2003: 539,512,000) ordinary shares in issue during the period ended 30 June 2004.

### (b) Diluted

Diluted earnings per share is not shown for the periods ended 30 June 2004 and 2003 as the potential ordinary shares are anti-dilutive.

## 8 Interest in associates

	At 30 June 2004	At 31 December 2003
Share of net assets	\$ 60,465,810	\$ 63,625,224
Amount due to associate	(7,780)	(8,028)
	<u>\$ 60,458,030</u>	<u>\$ 63,617,196</u>

Amount due to associate is unsecured, interest free and has no fixed terms of repayment.

- (i) On 30 June 2004, the Group's associate, China Property Development (Holdings) Limited ("CPDH"), completed a reorganisation pursuant to which, the Group's holding of 1,100 ordinary shares of US\$0.01 each were redesignated as 460 non-voting ordinary shares of US\$0.01 each and 640 ordinary shares of US\$0.01 each. Upon completion of the reorganisation, the Group's profit sharing ratio and proportion of voting rights held remain at 52.38% and 30% respectively.

- (ii) Sound Advantage Limited and Choice Capital Limited are wholly owned subsidiaries of CPDH. They hold equity interests of 30% and 50% in World Lexus Pacific Limited (“World Lexus”) respectively. World Lexus’ sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co Ltd (“Beijing Pacific Palace”), which is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC (“Pacific Town project”).

The Pacific Town project is a medium density residential project with a mixed development of high rise apartments and villas. The development of the project will be carried out in several phases. During the period ended 30 June 2004, Beijing Pacific Palace has obtained the pre-sale permit from the relevant government authorities for Phase I of the Pacific Town project. Pre-sale of the properties of Phase I commenced in late August 2004.

- (iii) Subsequent to the period ended 30 June 2004, CPDH entered into an agreement to acquire the remaining 20% equity interest in World Lexus from the minority shareholders for a consideration of RMB40 million (equivalent to \$37.7 million). The consideration is payable in 2 equal instalments within 90 days and 180 days of the issue of the pre-sale permit of the Pacific Town project. Pursuant to the agreement, CPDH is also required to reimburse the preliminary costs amounting to RMB45 million (equivalent to \$42.4 million) of the Pacific Town project incurred by the minority shareholders prior to CPDH’s acquisition of the 80% equity interest in World Lexus in 2002. The reimbursement will be settled in 2 instalments. The first instalment is payable on completion and the remaining instalment is payable within 90 days of completion subject to certain conditions. The acquisition has not been completed as of the date of the interim report was approved by the Company’s directors.
- (iv) During the period ended 30 June 2004, CPDH paid total fees of US\$494,781 (equivalent to \$3.9 million) (period ended 30 June 2003: US\$Nil) to certain related parties of the Company who act as fund manager and project manager pursuant to the private placement memorandum of CPDH dated 13 September 2003. These related parties are either companies wholly owned by ING Groep N.V. or companies in which a director of the Company is a member of the senior management.

## 9 Interest in jointly controlled entities

	At 30 June 2004	At 31 December 2003
Share of net assets	\$ 23,324,580	\$ 26,484,133
Amounts due from jointly controlled entities	1,734,416	2,750,243
	<u>\$ 25,058,996</u>	<u>\$ 29,234,376</u>

Amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East Instrument Company Limited, a jointly controlled entity in which the Group currently holds a 35% equity interest, for a consideration of approximately RMB14 million (equivalent to \$13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 30 June 2004, the disposal has not been accounted for as the conditions have not been satisfied.

**10 Non-trading investments**

	<i>Note</i>	At 30 June 2004	At 31 December 2003
Investment in unlisted joint venture	<i>(a)</i>	\$ –	\$ –
Investments in unlisted companies	<i>(b)</i>	–	–
Listed investments	<i>(c)</i>	20,500,000	44,497,050
		\$ <u>20,500,000</u>	\$ <u>44,497,050</u>

*Notes:*

- (a) The Group invested \$61,495,650 for an 18% equity interest in Beijing Asia Pacific First Star Communications Technology Co. Ltd. The cost of investment is fully provided for.
- (b) The Group invested \$23,557,891 for a 10.44% equity interest in ChinaGo Limited. The cost of investment is fully provided for.
- (c) At 31 December 2003, the Group held 22,819,000 ordinary shares of Skyworth Digital Holdings Limited, a company listed on the HKSE. During the period ended 30 June 2004, the Group disposed of 12,819,000 shares for a total consideration of \$28,580,450, resulting in a gain on disposal, net of expenses, of \$16,938,629. As at 30 June 2004, the remaining 10,000,000 shares were stated at their market value at \$2.05 per share as quoted on the HKSE. A revaluation surplus of \$1,000,000 has been transferred to investment revaluation reserve during the period ended 30 June 2004.

**11 Investment deposit**

The amount represents the purchase consideration paid to acquire a 15% equity interest in a joint venture entity in the PRC. The PRC joint venture is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC. The acquisition has not been completed as at 30 June 2004.

**12 Cash and cash equivalents**

	At 30 June 2004	At 31 December 2003
Deposits with banks and other financial institutions	\$ 37,815,902	\$ 13,890,347
Cash at bank and in hand	483,469	580,162
	\$ <u>38,299,371</u>	\$ <u>14,470,509</u>



## 13 Share capital

	No. of shares	Amount
Authorised:		
Ordinary shares of \$0.10 each	<u>1,200,000,000</u>	\$ <u>120,000,000</u>
Issued and fully paid:		
At 1 January 2004 and 30 June 2004	<u>539,514,000</u>	\$ <u>53,951,400</u>

- (a) The Company has a share option scheme under which the Board of Directors of the Company may grant options to employees of the Company and its subsidiaries, including directors, to subscribe for shares in the Company. The number of options granted and outstanding at 30 June 2004 is as follows:

Date options granted	Period during which options exercisable	Number of options granted and outstanding at 31 December 2003 and 30 June 2004
27 November 2001	28 May 2002 to 27 November 2004	18,861,150
11 December 2001	28 May 2002 to 27 November 2004	2,694,450

There were no options granted or exercised during the period ended 30 June 2004.

- (b) Pursuant to a subscription agreement dated 14 April 2004, the Company agreed to place 107,600,000 new shares to an independent third party at a price of \$0.14 per share. The new shares shall rank pari passu in all respects with the existing issued shares of the Company. Completion of the allotment has been rescheduled to take place in October 2004.

**14 Reserves**

	Share premium	Exchange reserves	Investment revaluation reserve	Accumulated losses	Total
At 1 January 2003	\$ 498,097,415	\$ 3,098,294	\$ 15,414,840	\$ (403,936,214)	\$ 112,674,335
Profit for the year	-	-	-	8,181,299	8,181,299
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	(106,693)	-	-	(106,693)
Share of exchange and other reserves of associates	-	(1,418)	-	(1,517,553)	(1,518,971)
Surplus on revaluation of non-trading investments	-	-	24,785,470	-	24,785,470
Shares issued from exercise of warrants	249	-	-	-	249
Transfer to income statement	-	-	(16,240,360)	-	(16,240,360)
	<u>\$ 498,097,664</u>	<u>\$ 2,990,183</u>	<u>\$ 23,959,950</u>	<u>\$ (397,272,468)</u>	<u>\$ 127,775,329</u>
At 31 December 2003	<u>\$ 498,097,664</u>	<u>\$ 2,990,183</u>	<u>\$ 23,959,950</u>	<u>\$ (397,272,468)</u>	<u>\$ 127,775,329</u>
At 1 January 2004	\$ 498,097,664	\$ 2,990,183	\$ 23,959,950	\$ (397,272,468)	\$ 127,775,329
Profit for the period	-	-	-	7,006,369	7,006,369
Exchange differences on translation of financial statements of PRC jointly controlled entities	-	131,601	-	-	131,601
Surplus on revaluation of non-trading investments	-	-	1,000,000	-	1,000,000
Transfer to income statement	-	-	(13,459,950)	-	(13,459,950)
	<u>\$ 498,097,664</u>	<u>\$ 3,121,784</u>	<u>\$ 11,500,000</u>	<u>\$ (390,266,099)</u>	<u>\$ 122,453,349</u>
At 30 June 2004	<u>\$ 498,097,664</u>	<u>\$ 3,121,784</u>	<u>\$ 11,500,000</u>	<u>\$ (390,266,099)</u>	<u>\$ 122,453,349</u>

**15 Net asset value per share**

The net asset value per share is computed based on the consolidated net assets of \$176,404,749 (31 December 2003: \$181,726,729) and 539,514,000 shares in issue as at 30 June 2004 and 31 December 2003.

**16 Capital commitments**

At 30 June 2004, the Group's share of an associate's capital commitments outstanding not provided for in the interim financial report was as follows:

	At 30 June 2004	At 31 December 2003
Authorised and contracted for	\$ 50,069,000	\$ 42,572,000
Authorised but not contracted for	<u>93,542,000</u>	<u>127,661,000</u>
	<u>\$ 143,611,000</u>	<u>\$ 170,233,000</u>

The above commitments represent estimated costs to be incurred in respect of the Phase I of the Pacific Town project as described in note 8.

#### 17 Reorganisation

The scheme of arrangement pursuant to section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as mentioned in note 20 to the Group's 2003 annual financial statements has not been implemented as of the date of this interim financial report.

#### 18 Investment proposal

The proposal to invest in the development of commercial properties at Taiyanggong Zone E in Beijing, the PRC as disclosed in note 21 to the Group's 2003 annual financial statements is in progress. No formal agreement has been reached as at the date of this interim financial report.

#### 19 Subsequent event

In August 2004, the Group's associate, CPDH, entered into an agreement to acquire the remaining 20% equity interest in World Lexus, details of which are set out in note 8.

#### 20 Related party transactions

During the period ended 30 June 2004, the Group and its associates paid management fees and other expenses to certain related companies, the details of which are set out in note 5(b) and note 8 to this interim financial report.

### V. DISTRIBUTABLE RESERVES

Newco had no reserve available for distribution to shareholders as at 31 December 2003.

*Set out below is a summary on the differences of certain provisions under the Companies Ordinance in Hong Kong and the Companies Law in the Cayman Islands concerning a listed company:*

	<b>Hong Kong</b>	<b>Cayman Islands</b>
<b>Alteration of memorandum and articles of association</b>	<p>A company may not alter its memorandum except in the cases, in the mode and to the extent for which express provision is made in the Companies Ordinance.</p> <p>A company may alter provisions in its articles of association by a special resolution unless such alteration is inconsistent with the special rights attached to a class of shares.</p>	<p>A company may by special resolution alter its memorandum of association with respect to any objects, powers or other matters specified therein and amend its articles of association.</p> <p>A resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or by proxy.</p>
<b>Issue of shares</b>	<p>Unless with the approval of the shareholders, the directors of a company may only allot and issue shares to the subscribers of the memorandum of association or under a pro rata offer of shares by such company to its shareholders.</p>	<p>There is no requirement for the directors of a company to obtain the approval of its shareholders for the issue of shares on a non pro rata basis. Such power to issue shares of a company, however, will be determined in accordance with the company's articles of associations</p>
<b>Share premium</b>	<p>When a company issues shares at a premium, the amount of the premium will be transferred to the share premium account. The money in the share premium account may be applied (i) in paying up unissued shares of the company to be issued to its members as fully paid bonus shares, (ii) in writing off preliminary expenses of the company or the expenses of issuing shares; and (iii) as premium payable on the redemption of redeemable preference shares.</p>	<p>When a company issues shares at a premium, the amount of the premium will generally be transferred to the share premium account. The money in the share premium account may be applied, subject to the provisions of the memorandum and articles of association, in such manner as the company may, from time to time, determine including, but without limitation, among other things, paying distributions or dividends to members or even in writing off accumulated losses of the Company.</p>

	<b>Hong Kong</b>	<b>Cayman Islands</b>
<b>Financial assistance</b>	<p>In general, it is not permissible for a company to give financial assistance for the purpose of enabling a person to acquire the company's shares unless the principal purpose in giving the assistance is not for the acquisition of the shares and the assistance is given in good faith in the interests of the company. There are only a few exceptions to the prohibition of providing financial assistance, which include, among other things, (i) distribution of dividend; (ii) distribution of assets in winding up; (iii) the allotment of bonus shares; (iv) reduction of capital confirmed by the court; (v) anything done in pursuance of an order of the court under Section 166 of the Companies Ordinance in respect of a compromise or scheme of arrangement between a company and its members or creditors; (vi) where the ordinary business of the company is lending money; and (vii) the company makes a loan to its employees (other than the non-salaried directors) employed in good faith by the company with a view to enabling them to purchase fully paid shares in the company or its holding company. In the case of a listed company giving financial assistance under (vi) or (vii) above, its net assets must not be thereby reduced or, to the extent that those assets are thereby reduced, if the assistance is provided out of distributable profits.</p>	<p>There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.</p>

	<b>Hong Kong</b>	<b>Cayman Islands</b>
<b>Subsidiary's membership of holding company</b>	<p>A subsidiary is prohibited from holding the shares of its holding company, except in certain circumstance as set out in the Companies Ordinance.</p>	<p>A subsidiary is not prohibited from acquiring or holding shares in its parent company if its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and act in good faith, for a proper purpose and in the interests of the subsidiary.</p>
<b>Share repurchase</b>	<p>A company in general may not purchase its own shares, except (i) where the redemption of shares, which is in effect a purchase by the company of those shares, is permitted; (ii) a reduction of capital; (iii) ordered by the court to purchase the shares of dissentients; (iv) the purchase is authorised by its articles of association provided that after the buy-back, it does not result in the company's capital comprising only redeemable shares. In general, a purchase may only be funded out of the distributable profits of a company or the proceeds of a fresh issue of shares made for the purpose.</p>	<p>An exempted company may, if authorised by its articles, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or the shareholder, and it may purchase its own shares, including any redeemable shares. A redemption or purchase may be made out of profits, or the proceeds of a fresh issue of shares made for the purpose of the redemption or purchase, or, under certain circumstances, out of capital. No redemption or purchase may take place unless the shares are fully paid, or if as a result of the redemption or purchase, there would no longer be any other member of the company holding shares. Shares redeemed are treated as cancelled and are available for reissue.</p>
	<p>A listed company may purchase its shares under a general offer or on recognised stock exchange or otherwise approved by special resolution in general meeting. In the case of a purchase on a stock exchange, the purchase must be authorised by the company in general meeting.</p>	<p>An exempted company cannot hold shares in treasury.</p>

**Hong Kong****Cayman Islands**

Listed company may purchase its shares in order to (i) settle or compromise a debt or claim; (ii) eliminate fractional shares; (iii) fulfil an employee share scheme agreement; or (iv) comply with certain court orders.

**Capital reduction**

A company may, if so authorised by its articles of association, by a special resolution reduce its capital in any way and the court confirms the reduction. If the court is satisfied, with respect to every creditor who is entitled to object to the reduction has been obtained or his debt or claim has been discharged or has determined, or has been secured, it may make an order confirming the reduction on such terms and conditions as it thinks fit.

Subject to the provisions of the Companies Law and to confirmation by the court, a company, if so authorised by its articles, may reduce its share capital by special resolution of its shareholders. After the resolution is passed, the company may apply to the court for an order confirming the reduction. A copy of the order of the court and a minute approved by the court setting out the particulars prescribed in the Companies Law must be registered with the Registrar. A notice of the registration must be published in the manner directed by the court.

**Dividends and distribution**

A company shall not make a distribution except out of profits available for the purpose. A listed company may only make a distribution if, at the time of distribution and after the distribution, the value of its net assets is not less than the total of its called up share capital and undistributable reserves.

Dividends may only be paid from profits. The Companies Law prohibits companies from paying a distribution or dividend to shareholders out of share premium account unless, immediately following the date on which the proposed payment is to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

	<b>Hong Kong</b>	<b>Cayman Islands</b>
<b>Protection of minority shareholders</b>	<p>Any member of a company incorporated in Hong Kong may apply for relief under Section 168A of the Companies Ordinance on the ground that the affairs of the company are being or have been conducted in a manner which is unfairly prejudicial to the interests of the members generally or of some part of the members (including himself). The court may make any order as it thinks appropriate, including, among other things, (i) an order regulating the affairs of the company in the future; (ii) an order providing for the other members of the company or for the company itself to buy the shares of any member; or (iii) an order altering the company's memorandum and articles of association.</p> <p>The court may also wind up a company, whether incorporated in Hong Kong or elsewhere, if the court considers that it is just and equitable that the company should be wound up.</p>	<p>Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up. In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.</p>



**DISCLOSURE OF INTERESTS**

- (a) As at the Latest Practicable Date, none of the directors or the chief executive of the Company had an interest or short position in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.
- (b) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (other than agreements expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation).

The aggregate Directors' fees and the aggregate Directors' basic salaries, housing allowances, other allowances, benefits in kind, bonuses and pensions paid by the Group for the year ended 31 December 2003 were approximately HK\$792,000.

The aggregate amount of the Directors' remuneration payable by the Group for the year ended 31 December 2004 is estimated to be approximately HK\$780,000.

- (c) As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors or the directors of Newco is materially interested and which is significant in relation to the business of the Group.
- (d) Save as disclosed herein, none of the Directors and the professional advisers named under the section headed "Consents" in this Appendix received commission, discounts, brokerages or other special terms granted within two years immediately preceding the Latest Practicable Date in connection with the issue or sale of any capital of any member of the Group.
- (e) Save as disclosed herein, none of the Directors and the professional advisers named under the section headed "Consents" in this Appendix is interested, directly or indirectly, in any assets which have been, within the two years immediately preceding the Latest Practicable Date, acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (f) As at the Latest Practicable Date, none of the professional advisers named under the section headed "Consents" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) were persons who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying Shares which would fall to be disclosed to the provisions of Division 2 and 3 of Part XV of the SFO or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

<b>Names</b>	<b>No. of Shares</b>	<b>Approximate % of shareholding</b>
ING Groep N.V. ( <i>Note 1</i> )	85,140,000	13.16
ING Bank N.V. ( <i>Note 1</i> )	85,140,000	13.16
ING Real Estate (B) B.V. ( <i>Note 1</i> )	85,140,000	13.16
ING Insurance Investments Holdings B.V. ( <i>Note 1</i> )	85,140,000	13.16
ING IM Investment Holdings B.V. ( <i>Note 1</i> )	85,140,000	13.16
N.V. Haagsche Herverekening-Maatachappij van 1836 ( <i>Note 1</i> )	85,140,000	13.16
Lin Si Yu ( <i>Note 2</i> )	107,600,000	16.63
Sense Control ( <i>Note 2</i> )	107,600,000	16.63

*Notes:*

- The 85,140,000 shares were held by N. V. Haagsche Herverekening-Maatachappij van 1836, which is a wholly-owned subsidiary of ING IM Investment Holdings B.V.. ING IM Investment Holdings B.V. is therefore deemed to be interested in the same parcel of shares hold by N.V. Haagsche Herverekening-Maatachappij van 1836.

ING IM Investment Holdings B.V. is a wholly-owned subsidiary of ING Insurance Investments Holdings B.V. and ING Insurance Investments Holdings B.V. is therefore deemed to be interested in the same parcel of shares hold by ING IM Investment Holdings B.V..

ING Insurance Investments Holdings B.V. is a wholly-owned subsidiary of ING Real Estate (B) B.V. and ING Real Estate (B) B.V. is therefore deemed to be interested in the same parcel of shares hold by ING Insurance Investments Holdings B.V..

ING Real Estate (B) B.V. is a wholly-owned subsidiary of ING Bank N.V. and ING Bank N.V. is therefore deemed to be interested in the same parcel of shares hold by ING Real Estate (B) B.V..

ING Bank N.V. is a wholly-owned subsidiary of ING Groep N.V. and ING Groep N.V. is therefore deemed to be interested in the same parcel of shares hold by ING Bank N.V..

- Sense Control is beneficially and wholly owned by Mr. Lin Si Yu. Mr. Lin Si Yu is therefore deemed to be interested in the same parcel of shares hold by Sense Control.

**LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors and the directors of Newco to be pending or threatened by or against any member of the Group.

**CONSENTS**

Quam, Conyers Dill & Pearman, Cayman have given and have not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and letters, as the case may be, and references to their names in the form and context in which they respectively appear.

The following are the qualifications of the professional advisers who have given opinions or advice which are contained in this document:

<b>Names</b>	<b>Qualifications</b>
Quam	Deemed licensed corporation licensed to perform types 4, 6 and 9 regulated activities under the SFO
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
KPMG	Certified Public Accountants

**MATERIAL CONTRACTS**

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

- (i) an agreement dated 18 February 2002 entered into between the Company as vendor and Galaxy Time Limited as purchaser for the sale and purchase of the entire issued share capital in and loan to Perfect Master Limited for an aggregate consideration of HK\$47,500,000;

- (ii) an agreement dated 18 February 2002 entered into between the Company as vendor and Wellington Equities Inc. as purchaser for the sale and purchase of the entire issued share capital in and loan to Hidden Advantage Investments Limited for an aggregate consideration of HK\$500,000; and
- (iii) a letter agreement dated 19 April 2004 entered into between the Company and Sense Control in respect of the subscription of 107,600,000 Shares at an issue price of HK\$0.14.

#### **PROCEDURES FOR DEMANDING A POLL**

Pursuant to Article 66 of the proposed new articles of association of Newco, a resolution put to the vote of a general meeting of the shareholders of Newco shall be determined in the first instance by a show of hands of the shareholders of Newco present in person or by proxy, but a poll may be demanded (before or after the vote by a show of hands) by:

- (a) the chairman of the meeting; or
- (b) at least three shareholders of Newco present in person or in the case of the shareholder of Newco being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any shareholder of Newco or shareholders of Newco present in person or in the case of the shareholder of Newco being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders of Newco having the right to vote at the meeting; or
- (d) by any shareholder of Newco or shareholders of Newco present in person or in the case of the shareholder of Newco being a corporation, by its duly authorised representative or by proxy and holding shares in Newco conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less one-tenth of the total sum paid up on all the shares conferring that right.

#### **GENERAL**

- (a) The estimated preliminary expenses of Newco are approximately US\$3,700 (equivalent to approximately HK\$28,860) and are payable by Newco.
- (b) All expenses in relation to the Scheme incurred by the Company, including legal, accounting and other advisory fees, printing costs, listing fees and other expenses have been or will be borne by the Company and are estimated to amount to approximately HK\$2.1 million.
- (c) The English text of this document and the proxy forms shall prevail over the Chinese text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office of Sidley Austin Brown & Wood, 39th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong from the date of this document until the date on which the Scheme becomes effective (both dates inclusive):

- (i) the memorandum and articles of association of the Company;
- (ii) the new memorandum of association of Newco;
- (iii) a summary of certain provisions of the new articles of association of Newco and a comparison of various provisions with the existing articles of association of the Company;
- (iv) the annual report of the Company for each of the three years ended 31 December 2001, 2002 and 2003;
- (v) the interim report of the Company for the six months ended 30 June 2004;
- (vi) the Companies Ordinance;
- (vii) the Companies Law;
- (viii) the letter of advice from Conyers Dill & Pearman, Cayman summarising certain aspects of the Cayman Islands company law;
- (ix) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (x) the rules of the Newco Share Option Scheme conditionally adopted by Newco, a summary of the terms of which is set out in Appendix II to this document; and
- (xi) the letters of consent referred to in this Appendix.

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**SCHEME OF ARRANGEMENT**

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HCMP 4971/2003

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS**

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**IN THE MATTER OF  
ING BEIJING INVESTMENT COMPANY LIMITED  
(ING 北京投資有限公司)**

**and**

**IN THE MATTER OF  
the Companies Ordinance (Chapter 32)**

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**SCHEME OF ARRANGEMENT  
(under Section 166 of the Companies Ordinance, Chapter 32)**

**between**

**ING BEIJING INVESTMENT COMPANY LIMITED  
(ING 北京投資有限公司)**

**and**

**THE HOLDERS OF SCHEME SHARES  
(as hereinafter defined)**

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**PRELIMINARY**

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## SCHEME OF ARRANGEMENT

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, following expressions shall bear the following meanings:

“business day”	a day on which The Stock Exchange of Hong Kong Limited is open for business of dealing in securities;
“Company”	ING Beijing Investment Company Limited (ING 北京投資有限公司), a company incorporated in Hong Kong with limited liability;
“Court”	the Court of First Instance of the High Court of Hong Kong;
“Effective Date”	the date on which this Scheme becomes effective in accordance with paragraph 8 of this Scheme;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“New Capital”	New Capital International Investment Limited, a company incorporated in the Cayman Islands with limited liability;
“New Capital Existing Shares”	the existing 10,000,000 ordinary shares of HK\$0.01 each in the capital of New Capital, all of which have been issued nil paid and are registered in the name of and beneficially owned by the Company;
“New Capital New Shares”	ordinary shares of HK\$0.01 each in the capital of New Capital to be allotted and issued pursuant to paragraph 3 of this Scheme;
“New Capital Shares”	the New Capital Existing Shares and/or the New Capital New Shares;
“Record Time”	4:00 p.m. (Hong Kong time) on the business day immediately preceding the Effective Date;
“this Scheme”	this scheme of arrangement in its present form or with or subject to any modification thereof or addition thereto or condition which the Court may think fit to approve or impose;
“Scheme Shares”	the Shares in issue at the Record Time;
“Shares”	ordinary shares of HK\$0.10 each in the capital of the Company; and
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong.

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## SCHEME OF ARRANGEMENT

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- (B) The authorised capital of the Company at the close of business on 10 January 2005 was HK\$120,000,000 divided into 1,200,000,000 Shares, of which 647,114,000 Shares have been issued and were fully paid.
- (C) New Capital was incorporated in the Cayman Islands. It is an exempted company incorporated on 1 August 2003 under the Companies Law Cap. 22 (Laws of 1961, as consolidated and revised) of the Cayman Islands with an authorised share capital of HK\$100,000 comprising the New Capital Existing Shares.
- (D) As at the date hereof, New Capital does not beneficially own any Shares.
- (E) The primary purpose of this Scheme is that the holders of the Scheme Shares should receive New Capital Shares in consideration for the cancellation and extinguishment of the Scheme Shares on the basis of one New Capital Share for each Scheme Share held by them at the Record Time, and that the Company should become a wholly-owned subsidiary of New Capital.
- (F) New Capital has agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.



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# SCHEME OF ARRANGEMENT

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## THE SCHEME

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### PART I

#### NEW CAPITAL

1. Subject to and forthwith upon this Scheme becoming effective, New Capital shall increase its authorised share capital from HK\$100,000 to HK\$120,000,000 by the creation of an additional 11,990,000,000 ordinary shares of HK\$0.01 each in New Capital.

### PART II

#### CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. On the Effective Date:
  - (a) the share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
  - (b) subject to and forthwith upon such reduction of capital taking effect, the authorised share capital of the Company shall be increased to its former amount HK\$120,000,000 by the creation of such number of Shares as is equal to the number of the Scheme Shares cancelled; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of its share capital in paying up in full at par the Shares to be created aforesaid, which Shares shall be allotted and issued, credited as fully paid, to New Capital and/or its nominee(s).

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## SCHEME OF ARRANGEMENT

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### PART III

#### CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

3. In consideration of the cancellation of the Scheme Shares and in exchange for the allotment and issue by the Company to New Capital of new Shares:

- (i) New Capital shall allot and issue at its expense the New Capital New Shares, credited as fully paid; and
- (ii) the Company shall transfer the New Capital Existing Shares,

to the holders of Scheme Shares (as appearing in the register of members of the Company at the Record Time) in the proportion of one New Capital Share for every Scheme Share held and so in proportion for any greater number of Scheme Shares held as aforesaid. An amount of HK\$100,000 standing to the credit of the share premium account of New Capital arising from the issue of the New Capital New Shares shall be applied to pay up the New Capital Existing Shares at par.

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# SCHEME OF ARRANGEMENT

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## PART IV

### GENERAL

4. The New Capital New Shares shall be identical, form one class and rank pari passu in all respects with the New Capital Existing Shares.
5. Not later than fourteen days from the Effective Date, New Capital shall allot and issue the New Capital New Shares and the Company shall transfer the New Capital Existing Shares, both to take effect as of the Effective Date, pursuant to paragraph 3 of this Scheme.
6. Every instrument of transfer or certificate validly subsisting at the Record Time in respect of a transfer or holding, respectively, of any number of Scheme Shares shall, at the opening of business on the Effective Date, cease to be valid for any purpose as an instrument of transfer or a certificate for the Shares and shall instead have effect for all purposes as if it were an instrument of transfer or a certificate in respect of, or duly issued by New Capital, for the same number of the New Capital Shares to be allotted and issued, or transferred, pursuant to paragraph 3 of this Scheme, provided that any such certificate may, at any time after the Effective Date at the option of the holder concerned, be lodged in the branch registrar of New Capital in Hong Kong for exchange whereupon a certificate for the same number of New Capital Shares shall be issued by New Capital at its expense up to four weeks from the Effective Date and at the expense of the relevant holder thereafter (which is presently HK\$2.5 per certificate).
7. All mandates or other instructions to the Company in relation to the payment of dividends on and other matters relating to the Scheme Shares which are in force at the opening of business on the Effective Date shall, unless and until revoked, be deemed to be valid and subsisting mandates or instructions to New Capital in relation to the payment of dividends on and corresponding matters relating to the same number of New Capital Shares to be allotted and issued, or transferred, pursuant to paragraph 3 of this Scheme.
8. This Scheme shall become effective as soon as an office copy of the order of the Court sanctioning this Scheme under Section 166 of the Companies Ordinance and confirming, under Section 60 of the Companies Ordinance, the reduction of and increase in share capital provided for in this Scheme, together with minutes relating to the share capital of the Company and containing the particulars required by Section 61 of the Companies Ordinance, shall have been duly registered by the Registrar of Companies in Hong Kong.
9. Unless this Scheme shall have become effective on or before 31 May 2005, or such later date as the Court may allow, this Scheme shall lapse.
10. The Company and New Capital may jointly consent for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.
11. All costs, charges and expenses of and incidental to this Scheme and the costs of carrying the same into effect shall be borne by the Company.

Dated 13 January 2005

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**NOTICE OF COURT MEETING**

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HCMP 4971/2003

**IN THE HIGH COURT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION  
COURT OF FIRST INSTANCE  
MISCELLANEOUS PROCEEDINGS NO. 4971 OF 2003**

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**IN THE MATTER OF  
ING BEIJING INVESTMENT COMPANY LIMITED  
(ING北京投資有限公司)**

**AND**

**IN THE MATTER OF  
THE COMPANIES ORDINANCE (CHAPTER 32)**

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**NOTICE OF MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an Order dated 25 November 2003 made in the above matters, the Court has directed a Meeting of the holders of shares of HK\$0.10 each in the capital of ING BEIJING INVESTMENT COMPANY LIMITED (ING 北京投資有限公司) (the “Company”) to be convened for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and holders of its shares of HK\$0.10 each and that such Meeting will be held at 41st Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on 7 February 2005 at 10:00 a.m., at which place and time all the holders of shares of HK\$0.10 each in the capital of the Company are entitled to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 166A of the Companies Ordinance are incorporated in the document, of which this Notice forms part.

Holders of Scheme Shares may vote in person at the Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead. A white form of proxy for use at the Meeting is enclosed herewith.

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## NOTICE OF COURT MEETING

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It is requested that forms appointing proxies be lodged at the registrar of the Company, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong, not less than 48 hours before the time appointed for the Meeting, but if forms are not so lodged, they may be handed to the Chairman of the Meeting at the Meeting.

Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stand first on in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

By the same Order, the Court has appointed Yu Sek Kee or, failing him, Poon Kai Leung to act as Chairman of the Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this the 13th day of January 2005

**SIDLEY AUSTIN BROWN & WOOD**

Solicitors

39th Floor, Two International Finance Centre

8 Finance Street

Central

Hong Kong

Solicitors to

**ING BEIJING INVESTMENT COMPANY LIMITED**

(ING北京投資有限公司)

**ING BEIJING INVESTMENT COMPANY LIMITED**  
**(ING北京投資有限公司)**

*(incorporated in Hong Kong with limited liability)*  
(Stock Code: 1062)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of ING Beijing Investment Company Limited (ING北京投資有限公司) (the “Company”) will be held at 41st Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong, on 7 February 2005 at 11:00 a.m. (or so soon thereafter as the meeting of holders of ordinary shares of HK\$0.10 each in the capital of the Company convened by direction of the High Court of the Hong Kong Special Administrative Region for the same place and day shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions:

**SPECIAL RESOLUTION**

**1. “THAT:**

- (A) the scheme of arrangement dated 13 January 2005 under section 166 of the Companies Ordinance of Hong Kong (the “Scheme”) between the Company and holders of Scheme Shares (as defined in the Scheme) in the form of the print contained in the scheme document of the Company dated 13 January 2005 produced to this meeting, which print has for the purpose of identification been signed by the Chairman hereof marked “A” with any modification thereof or addition thereto or condition as may be approved or imposed by the Court (as defined in the Scheme), be and the same is hereby approved;
- (B) for the purpose of giving effect to the Scheme:
- (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);
  - (ii) subject to and forthwith upon such reduction of capital taking effect, the authorised share capital of the Company be increased to its former amount of HK\$120,000,000 by the creation of such number of new shares of HK\$0.10 each as is equal to the number of the Scheme Shares (as defined in the Scheme) cancelled and extinguished; and
  - (iii) on the Effective Date (as defined in the Scheme), the Company shall apply the amount of the credit which shall arise in its books of account as a result of the cancellation of the Scheme Shares in paying up in full at par new shares to be created as aforesaid, which shares shall be allotted and issued, credited as fully paid, to New Capital International Investment Limited, a company incorporated in the Cayman Islands; and
- (C) the directors of the Company be and they are hereby unconditionally authorised to allot and issue the Shares referred to in (B)(iii) above and do such acts and/or sign such documents as they may deem necessary for the implementation of the Scheme.”

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# NOTICE OF EGM

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## ORDINARY RESOLUTION

2. **“THAT** subject to the Scheme (as defined in Resolution no. 1 set out in the notice of the extraordinary general meeting of the Company of which this Resolution forms part) becoming effective and the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval for the listing of, and permission to deal in, the shares which may fall to be issued upon the exercise of any options granted under the Share Option Scheme (as defined below), the share option scheme of New Capital International Investment Limited (the “Share Option Scheme”) in the form produced to this meeting and for the purpose of identification signed by the Chairman hereof marked “B”, be and the same is hereby approved.”

By order of the Board  
**Mrs. Lui Fung Mei Yee, Mabel**  
*Company Secretary*

Hong Kong, 13 January 2005

*Registered office:*

41st Floor  
Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A yellow form of proxy for use at the meeting is enclosed. In order to be valid, the yellow form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the share registrars of the Company, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time of the meeting.
3. Completion and return the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. Where there are joint holders of any share, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto; but if more than one such joint holders be present at the meeting personally or by proxy, then the one of such holders whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. As at the date of this notice, the board of directors of the Company comprises four executive directors, namely, Messrs. Liu Xiao Guang, Cheng Bing Ren, Lawrence H. Wood and Yu Sek Kee, Stephen, three non-executive directors, namely, Dr. Poon Kai Leung, James, Mr. Tong Ng Siu Yee, and Mr. Liu Xue Min, and three independent non-executive directors, namely, Mr. To Chun Kei, Dr. Kwong Chun Wai, and Mr. Fung Tze Wa.