**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in Beijing Development (Hong Kong) Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of Beijing Development (Hong Kong) Limited.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

# BEIJING DEVELOPMENT (HONG KONG) LIMITED
# 北京發展（香港）有限公司

*(Incorporated in Hong Kong with limited liability)*

## MAJOR AND CONNECTED TRANSACTIONS OF BEIJING DEVELOPMENT (HONG KONG) LIMITED

## Conditional agreements for IFTL, a wholly-owned subsidiary of BEHL, GDL and INC Funds to subscribe for and the Placing Agent to place the New Shares, conditional agreements for the Disposals, applications for the Whitewash Waiver and the Special Deal Consent, increase in authorised share capital and general mandates to issue and to repurchase Shares

*Financial adviser to Beijing Development (Hong Kong) Limited*

**BNP PARIBAS PEREGRINE**

*Independent financial advisers to the Independent Board Committee*

**ASIA FINANCIAL CAPITAL LIMITED** **HORWATH CAPITAL ASIA LIMITED**

A letter from the Independent Board Committee containing its recommendations in respect of the Subscriptions, the Disposals and the Whitewash Waiver is set out on pages 38 to 39 of this circular. A letter from Asia Financial Capital Limited and Horwath Capital Asia Limited, the joint independent financial advisers, containing their advice to the Independent Board Committee is set out on pages 40 to 57 of this circular.

A notice convening an extraordinary general meeting of Beijing Development (Hong Kong) Limited to be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at 10:30 a.m. on 16th March, 2001 is set out on pages 120 to 124 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

23rd February, 2001

# CONTENTS

*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

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| "Announcement" | the joint announcement made by the Company and BEHL dated 18th January, 2001 |
| "Asia Financial" | Asia Financial Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which has been appointed as one of the Independent Financial Advisers |
| "associates" | has the meaning ascribed to it in the Listing Rules |
| "BEHL" | Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange |
| "BEHL Group" | BEHL and its subsidiaries |
| "BEHL Subscription" | the subscription by IFTL of 168,000,000 New Shares under the BEHL Subscription Agreement |
| "BEHL Subscription Agreement" | the conditional agreement dated 18th January, 2001, entered into between IFTL, the Company and IHL regarding the BEHL Subscription |
| "BEHL Subscription Completion" | the completion of the BEHL Subscription Agreement, which is expected to be on or before 27th April, 2001 |
| "Beijing Jin Yang" | Beijing Jin Yang Worsted Co. Ltd., a sino-foreign joint venture established in the PRC, 50% interest of which is held by the Company |
| "BITIC" | Beijing International Trust and Investment Corporation, the controlling shareholder of IHL with a 70% indirect shareholding interest in IHL as at the Latest Practicable Date |
| "BNP Paribas Peregrine" | BNP Paribas Peregrine Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| "Board" | the board of Directors |

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| "CB Richard Ellis" | CB Richard Ellis Limited, an independent property valuer |
| "Clarification Announcement" | the announcement made by the Company dated 6th December, 2000 |
| "Company" | Beijing Development (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange |
| "Corporate Investor Subscription Agreements" | the GDL Subscription Agreement and the INC Funds Subscription Agreement |
| "Corporate Investor Subscription Completion" | completion of the Corporate Investor Subscription Agreements, which is expected to be on or before 27th April, 2001 |
| "Corporate Investor Subscriptions" | the GDL Subscription and the INC Funds Subscription |
| "Corporate Investors" | GDL and INC Funds |
| "Director(s)" | the director(s) of the Company |
| "Disposal Agreements" | the HK Disposal Agreement and the JV Disposal Agreement |
| "Disposals" | the HK Disposal and the JV Disposal |
| "EGM" | the extraordinary general meeting of the Company to be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on 16th March, 2001 at 10:30 a.m., notice of which is set out on pages 120 to 124 of this circular |
| "Executive" | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director |
| "GDL" | Gateway Direct Limited, an indirect wholly-owned subsidiary of HWL incorporated in the British Virgin Islands with limited liability |

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| "GDL Subscription" | the subscription by GDL of 10,000,000 New Shares under the GDL Subscription Agreement |
| "GDL Subscription Agreement" | the conditional agreement dated 18th January, 2001 entered into between GDL and the Company regarding the GDL Subscription |
| "GDL Subscription Completion" | completion of the GDL Subscription Agreement, which is expected to be on or before 27th April, 2001 |
| "GMG" | Guang Ming Group (Hong Kong) Limited, a wholly-owned subsidiary of IHL incorporated in Hong Kong with limited liability |
| "Group" | the Company and its subsidiaries |
| "HK Disposal" | the disposal of the Sale Shares, the Shareholder's Loan and the Worsted Products by the Company to GMG pursuant to the HK Disposal Agreement and the transactions contemplated therein |
| "HK Disposal Agreement" | the agreement dated 18th January, 2001 entered into between the Company, GMG and IHL in relation to the HK Disposal |
| "HK GAAP" | Hong Kong Generally Accepted Accounting Principles |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Horwath Capital" | Horwath Capital Asia Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which has been appointed as one of the Independent Financial Advisers |
| "HWL" | Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange |
| "IFTL" | Idata Finance Trading Limited, a direct wholly-owned subsidiary of BEHL |

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| "IHL" | Illumination Holdings Limited, the controlling shareholder of the Company with an approximately 68.35% shareholding interest in the Company as at the Latest Practicable Date |
| "INC Funds" | International Network Capital LDC, a company incorporated in the Cayman Islands with limited liability in April 1996, with fund size of US$35 million and managed by WI Harper Group, a high technology venture capital firm based in San Francisco, the United States of America |
| "INC Funds Subscription" | the subscription by INC Funds of 10,000,000 New Shares under the INC Funds Subscription Agreement |
| "INC Funds Subscription Agreement" | the conditional agreement dated 18th January, 2001, entered into between INC Funds and the Company regarding the INC Funds Subscription |
| "INC Funds Subscription Completion" | completion of the INC Funds Subscription Agreement, which is expected to be on or before 27th April, 2001 |
| "Independent Board Committee" | an independent committee of the Board comprising Wu Shi Xiong and Feng Ching Yeng, Frank appointed to consider and make recommendations to the Independent Shareholders in relation to, amongst other things, the terms of the Subscriptions, the Disposals and the Whitewash Waiver |
| "Independent Financial Advisers" | Asia Financial and Horwath Capital |
| "Independent Shareholder(s)" | the Shareholders other than IFTL, BEHL, IHL, GDL, HWL, INC Funds, and other Shareholders who are involved or interested in the Subscriptions or the Disposals, and any of their associates and their respective concert parties (if any) who are prohibited from voting under the Takeovers Code or the Listing Rules |
| "Issue Price" | the issue price of HK$1.00 per New Share, pursuant to the Subscription Agreements |
| "JV Disposal" | the disposal of 50% interest in Beijing Jin Yang by the Company to GMG pursuant to the JV Disposal Agreement and the transactions contemplated therein |

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| "JV Disposal Agreement" | the agreement dated 18th January, 2001 entered into between the Company, GMG and IHL in relation to the JV Disposal |
| "Last Trading Day" | 16th January, 2001, being the last trading day of the Shares on the Stock Exchange prior to the date of the Announcement |
| "Latest Practicable Date" | 19th February, 2001, being the latest practicable date before the printing of this circular for ascertaining certain information contained in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mandate" | an unconditional general mandate to allot, issue and deal with additional Shares to be granted to the Directors at the EGM |
| "New Share(s)" | 218,000,000 new Share(s) to be issued at the Issue Price pursuant to the Subscriptions which will rank pari passu in all respects with the Shares in issue on the date of completion of each Subscription Agreement, including but not limited to the right to receive all dividends and distributions declared, made or paid by the Company on or after the date of completion of each Subscription Agreement |
| "Placing" | the placing of 30,000,000 New Shares on the terms of the Placing Agreement |
| "Placing Agent" | Shenyin Wanguo Securities (H.K.) Ltd., a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| "Placing Agreement" | the placing agreement dated 18th January, 2001 entered into between the Company and the Placing Agent in relation to the Placing |
| "Placing Completion" | the completion of the Placing Agreement, which is expected to be on or before 27th April, 2001 |
| "PRC" | the People's Republic of China |

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| "PRC GAAP" | accounting principles generally accepted in the PRC |
| "PRC Party" | 北京北毛紡織集團有限責任公司, the PRC joint venture party of Beijing Jin Yang holding its 50% shareholding interest |
| "Sale Shares" | the 70 shares of HK$1.00 each in the share capital of Sino Textile, representing 70% of the existing issued share capital of Sino Textile |
| "SDI Ordinance" | the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "Share(s)" | ordinary share(s) of HK$1.00 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Shares |
| "Shareholder's Loan" | the non-interest bearing shareholder's loan of HK$1,518,208 which is due from Sino Textile to the Company |
| "Sino Textile" | Sino Textile Enterprises Limited, a company incorporated in Hong Kong with limited liability and is owned as to 70% by the Company |
| "Special Deal Consent" | the consent from the Executive required under Note 4 to Rule 25 of the Takeovers Code |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscribers" | IFTL, GDL, INC Funds and the placees pursuant to the Placing |
| "Subscriptions" | the BEHL Subscription, the Corporate Investor Subscriptions and the Placing |
| "Subscription Agreement(s)" | the BEHL Subscription Agreement, the GDL Subscription Agreement, the INC Funds Subscription Agreement and the Placing Agreement or, where the context requires, any of such agreement |

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| "Subscription Completion" | completion of the Subscription Agreements, which is expected to be on or before 27th April, 2001 |
| "Sunbird" | Sunbird Holdings Limited, a company incorporated in the British Virgin Islands with limited liability |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |
| "Whitewash Waiver" | a waiver from the obligation on the part of IFTL and persons acting in concert with it to make a general offer under the Takeovers Code for all the Shares not beneficially owned by IFTL and persons acting in concert with it as a result of the Subscriptions, pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code |
| "Worsted Products" | all the woollen and worsted products owned by the Company |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "S$" | Singapore dollars, the lawful currency of Singapore |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "%" | per cent. |

*In this circular, for information purpose only, certain amounts in RMB have been translated into HK$ at the following rate: RMB1 to HK$0.9302. Such translation should not be construed as a representation that the RMB amounts have been, could have been or could be converted into HK$, as the case may be, at this or any other rates or at all.*

*In this circular, for information purpose only, certain amounts in US$ have been translated into HK$ at the following rate: US$1 to HK$7.77. Such translation should not be construed as a representation that the US$ amounts have been, could have been or could be converted into HK$, as the case may be, at this or any other rates or at all.*

# BEIJING DEVELOPMENT (HONG KONG) LIMITED
# 北京發展（香港）有限公司

*(Incorporated in Hong Kong with limited liability)*

*Directors:*

*Executive Directors:*
Bai Jin Rong *(Chairman)*
Ng Kong Fat, Brian *(Managing Director)*
Ng Kwong Fung

*Independent Non-executive Directors:*
Wu Shi Xiong
Feng Ching Yeng, Frank

*Registered office:*
20th Floor
Hang Lung House
184-192 Queen's Road Central
Sheung Wan
Hong Kong

23rd February, 2001

*To the Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTIONS OF BEIJING DEVELOPMENT (HONG KONG) LIMITED**

**Conditional agreements for IFTL, a wholly-owned subsidiary of BEHL, GDL and INC Funds to subscribe for and the Placing Agent to place the New Shares, conditional agreements for the Disposals, applications for the Whitewash Waiver and the Special Deal Consent, increase in authorised share capital and general mandates to issue and to repurchase Shares**

## 1. INTRODUCTION

### Subscription Agreements

It was announced on 18th January, 2001 that the Company has entered into the BEHL Subscription Agreement, the GDL Subscription Agreement and the INC Funds Subscription Agreement, pursuant to which each of IFTL, GDL and INC Funds has conditionally agreed to subscribe for 168,000,000, 10,000,000 and 10,000,000 New Shares respectively, at an issue price of HK$1.00 per New Share.

Upon the Subscription Completion, IFTL will be interested in an aggregate of 168,000,000 Shares, representing approximately 195.90% of the issued share capital of the Company of 85,758,750 Shares as at the Latest Practicable Date and 55.31% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions of 303,758,750 Shares. BEHL, through IFTL, will consequently become the indirect controlling shareholder of the Company.

Completion of the BEHL Subscription Agreement is subject to the conditions as set out in the section headed "Conditions of the BEHL Subscription" below.

Under Rule 26 of the Takeovers Code, upon the BEHL Subscription Completion, IFTL and its concert parties, if any, would be obliged, unless the Whitewash Waiver is granted, to make an unconditional general offer for all the issued Shares not already owned or agreed to be acquired by IFTL and its concert parties, if any. An application has been made by IFTL and BEHL to the Executive for the Whitewash Waiver which, if granted, would normally be subject to the approval of the Independent Shareholders on a vote taken by way of a poll. The Executive has agreed, subject to the approval by the Independent Shareholders by way of a poll, to grant the Whitewash Waiver. The BEHL Subscription Completion is conditional upon, amongst other things, the granting of the Whitewash Waiver by the Executive. Pursuant to the BEHL Subscription Agreement, IFTL will not waive the requirement of the granting of the Whitewash Waiver by the Executive.

**There will be no general offer for the Shares as a result of the BEHL Subscription.**

**If the Whitewash Waiver is approved by the Independent Shareholders and immediately upon the Subscription Completion, BEHL (through IFTL) and its concert parties (if any) will hold approximately 55.31% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions and as such, BEHL and its concert parties (if any) may be free to acquire additional Shares thereafter without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.**

In order to maintain sufficient public float upon the BEHL Subscription Completion, the Company has also entered into the Corporate Investor Subscription Agreements and the Placing Agreement.

Pursuant to the Corporate Investor Subscription Agreements, each of GDL and INC Funds will subscribe for 10,000,000 New Shares at the Issue Price, each representing approximately 11.66% and approximately 3.29% of the issued share capital of the Company as at the Latest Practicable Date and the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions respectively. The Corporate Investor Subscription Completion is subject to the conditions as set out in the section headed "Conditions of the Corporate Investor Subscriptions" below.

Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to place 30,000,000 New Shares at an issue price of HK$1.00 per New Share for total gross proceeds of HK$30,000,000. The 30,000,000 New Shares represent approximately 34.98% of the issued share capital of the Company as at the Latest Practicable Date and approximately 9.88% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions.

The 30,000,000 New Shares will be placed to institutional or professional investors as placees. The placees will be independent of and not connected and not acting in concert with the Company, IFTL or BEHL, the directors, chief executives or substantial shareholders of the Company, IFTL or BEHL, any of their subsidiaries or any of their respective associates or concert parties (if any).

Completion of the Placing Agreement is subject to the conditions as set out in the section headed "Conditions of the Placing" below.

For the dilutive effect immediately after the Subscription Completion, please refer to page 27 of this circular under the paragraph headed "Changes in the shareholding structure of the Company as a result of the Subscriptions".

The Board also proposed to increase the authorised share capital of the Company from HK$160,000,000 to HK$1,000,000,000 by the addition of 840,000,000 new Shares. Save as disclosed in this letter under the sections headed "The BEHL Subscription Agreement", "The Corporate Investor Subscription Agreements" and "The Placing Agreement", the Directors do not have any intention of issuing any part of the share capital of the Company.

**Disposal Agreements**

In addition, the Company entered into the following agreements on 18th January, 2001:

(i) the HK Disposal Agreement with GMG and IHL, pursuant to which the Company has conditionally agreed to sell to GMG the Sale Shares, the Shareholder's Loan and the Worsted Products at an aggregate cash consideration of HK$6,021,227; and

(ii) the JV Disposal Agreement with GMG and IHL, pursuant to which the Company has conditionally agreed to sell to GMG the Company's entire 50% interest in Beijing Jin Yang at a cash consideration of HK$19,618,897.

The aggregate consideration for the Disposals is HK$25,640,124, representing approximately 53.64% of the audited consolidated net assets of the Group of approximately HK$47,800,000 as at 31st December, 1999.

The Disposals constitute special deals under Rule 25 of the Takeovers Code and hence require consent from the Executive. An application has been made to the Executive for the Special Deal Consent. The Executive has indicated that the Special Deal Consent will be granted, subject to the Independent Financial Advisers stating in their opinion that the terms of the Disposal Agreements are fair and reasonable and to the Independent Shareholders passing the relevant resolution to approve the Disposal Agreements on a vote taken by way of a poll. Asia Financial and Horwath Capital have been appointed as joint independent financial advisers to advise the Independent Board Committee in respect of, among other things, the terms of the Disposal Agreements. If the Disposal Agreements are not approved by the Independent Shareholders, the Company shall not be bound to proceed with the Disposal Agreements.

As IHL is the controlling shareholder of the Company, the Disposals constitute connected transactions of the Company for the purposes of the Listing Rules. Since the aggregate consideration of the Disposals of HK$25,640,124 represents approximately 53.64% of the audited consolidated net assets of the Group as at 31st December, 1999, the Disposals also constitute major transactions of the Company for the purposes of the Listing Rules. Accordingly, the Disposals are subject to, among other things, approval by the Independent Shareholders.

IFTL, BEHL, any of their respective associates and persons acting in concert with either of them in relation to the Company for the purpose of the Takeovers Code and the Listing Rules will, to the extent of any shareholding held by each of them in the Company, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM. The Executive has indicated that any purchase of the Shares by IFTL, BEHL or any person acting in concert with either of them during the 6 month period prior to the date of the Announcement (but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the BEHL Subscription) and up to the date of the EGM will be deemed as a disqualifying transaction under paragraph 3 of Schedule VI of the Takeovers Code. If any such disqualifying transaction should occur prior to the date of the EGM, the Whitewash Waiver will be invalidated.

As at the Latest Practicable Date, GMG is not interested in any Shares. However, GMG, any of its associates and persons acting in concert with any of them in relation to the Company for the purpose of the Takeovers Code and the Listing Rules will, to the extent of any shareholding held by each of them in the Company, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

IHL, any of its associates and persons acting in concert with any of them in relation to the Company for the purpose of the Takeovers Code and the Listing Rules will, to the extent of any shareholding held by each of them in the Company, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

As at the Latest Practicable Date, GDL and HWL are not interested in any Shares. However, GDL, HWL, any of their respective associates and persons acting in concert with any of them in relation to the Company for the purpose of the Takeovers Code and the Listing Rules will, to the extent of any shareholding held by each of them in the Company, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

As at the Latest Practicable Date, INC Funds is not interested in any Shares. However, INC Funds, any of its associates and persons acting in concert with any of them in relation to the Company for the purpose of the Takeovers Code and the Listing Rules will, to the extent of any shareholding held by each of them in the Company, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

The Independent Shareholders will be advised by the Independent Board Committee. Mr. Bai Jin Rong, Mr. Ng Kong Fat, Brian and Mr. Ng Kwong Fung are salaried Directors. Mr. Bai Jin Rong, a Director and the Chairman of the Company, is also an executive vice president and a director of BEHL. Mr. Ng Kwong Fung and Mr. Ng Kong Fat, Brian together own 100% of the issued share capital of Sunbird, which in turn owns 30% of IHL. Accordingly, Mr. Ng Kwong Fung and Mr. Ng Kong Fat, Brian are indirectly interested in the issued share capital of the Company held by IHL. None of Mr. Bai Jin Rong, Mr. Wu Shi Xiong nor Mr. Feng Ching Yeng, Frank is directly or indirectly interested in the issued share capital of the Company as at the Latest Practicable Date.

Under the Takeovers Code, Mr. Bai Jin Rong, Mr. Ng Kong Fat, Brian and Mr. Ng Kwong Fung are considered not independent to advise the Independent Shareholders on the Subscriptions, the Whitewash Waiver and the Disposal Agreements. Mr. Wu Shi Xiong and Mr. Feng Ching Yeng, Frank, who are neither salaried Directors nor involved in or interested in the Subscriptions or the Disposals have been appointed to consider and advise the Independent Shareholders on the terms of the Subscriptions, the granting of the Whitewash Waiver and the terms of the Disposal Agreements. The Independent Financial Advisers have been appointed to advise the Independent Board Committee on whether the terms of the Subscriptions, the granting of the Whitewash Waiver and the terms of the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

The purpose of this circular is to provide the Shareholders with further information in relation to, among other things, the Subscriptions, the Whitewash Waiver, the Disposals, the Special Deal Consent, the proposed increase in the authorised share capital of the Company and the proposed general mandates to issue and to repurchase Shares, for the purpose of voting on the resolutions set out in the notice of the EGM. The recommendations of the Independent Board Committee to the Independent Shareholders are set out on pages 38 to 39 of this circular. A copy of the letter from the Independent Financial Advisers containing their advice in relation to the Subscriptions, the Whitewash Waiver and the Disposal Agreements is set out on pages 40 to 57 of this circular.

## 2. THE BEHL SUBSCRIPTION AGREEMENT

**Date:**

18th January, 2001

**Parties:**

Issuer: The Company
Subscriber: IFTL, a direct wholly-owned subsidiary of BEHL
Warrantor: IHL

Mr. Bai Jin Rong, an executive vice-president and a director of BEHL, is also a Director and the Chairman of the Company. IFTL is otherwise independent of the Company, GDL, HWL or INC Funds, the directors, chief executives and substantial shareholders of the Company, GDL, HWL or INC Funds, any of their subsidiaries and their respective associates. IHL is the controlling shareholder of the Company.

**Shares to be issued:**

Pursuant to the BEHL Subscription Agreement, 168,000,000 New Shares are to be subscribed by IFTL at the Issue Price, representing approximately 195.90% of the issued share capital of the Company as at the Latest Practicable Date and approximately 55.31% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions.

**Issue Price:**

HK$1.00 per Share, further information about the Issue Price is set out in the section headed "Issue Price of the New Shares" below.

**Conditions of the BEHL Subscription:**

The BEHL Subscription Completion is conditional upon the following conditions being fulfilled or, in the case of conditions (d), (f), (i) and (j), being waived by IFTL:

(a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the New Shares to be issued by the Company upon the BEHL Subscription Completion, the Corporate Investor Subscription Completion and the Placing Completion (subject only to issue);

(b) the authorised share capital of the Company being increased from HK$160,000,000 to HK$1,000,000,000 by the addition of 840,000,000 new Shares;

(c) the passing of ordinary resolutions by the Independent Shareholders at the EGM by poll, approving:–

  (i) the allotment and issue of the 168,000,000 New Shares to IFTL; and

  (ii) the Whitewash Waiver;

(d) the Shares remaining listed and traded on the Stock Exchange, save for temporary suspension or suspensions for not longer than 10 consecutive trading days and any temporary suspension in connection with clearance of the related press announcement at all times prior to the date of the BEHL Subscription Completion;

(e) the granting by the Executive of the Whitewash Waiver;

(f) no notification being received by the Company prior to the date of the BEHL Subscription Completion from the Stock Exchange or the SFC to the effect that the listing of the Shares on the Stock Exchange will or is likely to be withdrawn as a result of the BEHL Subscription Completion;

(g) the Corporate Investor Subscription Agreements and the Placing Agreement becoming unconditional in all respects save for any condition therein requiring the BEHL Subscription Agreement to be unconditional in all respects;

(h) the Disposal Agreements becoming unconditional in all respects, other than condition (a) of the JV Disposal as set out below and any conditions in the Disposal Agreements requiring the BEHL Subscription Agreement to be unconditional in all respects;

(i) there being no material breach of the warranties given by the Company under the BEHL Subscription Agreement as at the date on which all other conditions have been fulfilled or waived; and

(j) completion of due diligence by IFTL or its advisors on the Group to the satisfaction of IFTL in respect of the contingent liabilities of and the titles to properties owned by the Group and some other associated companies.

As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived in whole or in part. In the event that any of the above conditions has not been fulfilled or waived in whole or in part on or before 27th April, 2001 (or such later date as may be agreed between the parties), then the BEHL Subscription Agreement and all the parties' rights and obligations thereunder will cease and terminate and no party shall have any liability under them (without prejudice to the rights of any such parties in respect of antecedent breaches). Pursuant to the BEHL Subscription Agreement, IFTL does not have the right to waive conditions (a), (b), (c), (e), (g) and (h) stated above.

**Completion of the BEHL Subscription:**

BEHL Subscription Completion will take place on the third business day following the day on which the conditions of the BEHL Subscription Agreement have been fulfilled or waived or such other date as may be agreed between IFTL and the Company and shall take place simultaneously with the completion of the HK Disposal Agreement, the Placing Agreement and the Corporate Investor Subscription Agreements. It is expected that the date of the BEHL Subscription Completion will be on or before 27th April, 2001. The amount payable by IFTL under the BEHL Subscription will be settled upon the BEHL Subscription Completion and no deposit is required to be paid by IFTL pursuant to the BEHL Subscription Agreement.

**Cost and expenses:**

The Company and IFTL will bear their own costs and expenses incurred in relation to the preparation of the BEHL Subscription Agreement and the BEHL Subscription except that the Company shall bear all capital duty in relation to the increase in the authorised share capital of the Company.

**Ranking:**

The New Shares to be issued to IFTL will rank pari passu in all respects with the Shares in issue on the date of the BEHL Subscription Completion, including ranking for payment of any dividend declared on and after the date of the BEHL Subscription Completion.

**3. THE CORPORATE INVESTOR SUBSCRIPTION AGREEMENTS**

**Date:**

18th January, 2001

**Parties:**

***In respect of the GDL Subscription Agreement***

Issuer: The Company
Subscriber: GDL

***In respect of the INC Funds Subscription Agreement***

Issuer: The Company
Subscriber: INC Funds

Each of GDL and INC Funds is independent of and not connected or acting in concert with the Company, BEHL or IFTL, the directors, chief executive or substantial shareholders of the Company, BEHL or IFTL, any of their respective subsidiaries or associates.

**Shares to be issued:**

Pursuant to the GDL Subscription Agreement, 10,000,000 New Shares are to be subscribed by GDL, representing approximately 11.66% of the issued share capital of the Company as at the Latest Practicable Date and approximately 3.29% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions. Pursuant to the INC Funds Subscription Agreement, 10,000,000 New Shares are to be subscribed by INC Funds, representing approximately 11.66% of the issued share capital of the Company as at the Latest Practicable Date and approximately 3.29% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions.

**Issue Price:**

HK$1.00 per Share, further information about the Issue Price is set out in the section headed "Issue Price of the New Shares" below.

**Conditions of the Corporate Investor Subscriptions:**

Completion of each of the Corporate Investor Subscription Agreements is conditional upon the following conditions being fulfilled or, in the case of conditions (e) and (f), being waived by the relevant Corporate Investor:

(a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the New Shares to be issued by the Company upon the relevant Corporate Investor Subscription Completion;

(b) the authorised share capital of the Company being increased from HK$160,000,000 to HK$1,000,000,000 by the addition of 840,000,000 new Shares;

(c) the passing of an ordinary resolution by the Independent Shareholders at the EGM by poll authorising the allotment and issue of the New Shares to the relevant Corporate Investor;

(d) the BEHL Subscription Agreement becoming unconditional in all respects (including but not limited to the Whitewash Waiver being approved by the Independent Shareholders at the EGM by poll and being granted by the Executive), other than any condition therein requiring the relevant Corporate Investor Subscription Agreement to be unconditional in all respects;

(e) the warranties given by the Company remaining true and accurate and not misleading in any material respect as given at the date of the Corporate Investor Subscription Agreements and at the relevant Corporate Investor Subscription Completion; and

(f) the continued listing and trading of the Shares on the Stock Exchange, save for any temporary suspension not exceeding 10 consecutive trading days and any temporary suspension in connection with clearance of the announcement in relation to the relevant Corporate Investor Subscription Agreement or the BEHL Subscription Agreement at all times prior to the date of the relevant Corporate Investor Subscription Completion and no indication being received on or before the Corporate Investor Subscription Completion from the SFC or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange will or may be withdrawn or objected to (or conditions will or may be attached thereto except those the Company shall reasonably accept) as a result of the relevant Corporate Investor Subscription Completion or in connection with the terms of the relevant Corporate Investor Subscription Agreement or the BEHL Subscription Agreement.

In the event that any of the above conditions has not been fulfilled or waived on or before 27th April, 2001 (or such later date as may be agreed between the Company and the relevant Corporate Investor), then the Corporate Investor Subscription Agreement relating to such Corporate Investor and all the parties' rights and obligations thereunder will cease and terminate and no party shall have any liability under it (without prejudice to the rights of any such parties in respect of antecedent breaches). Pursuant to each of the Corporate Investor Subscription Agreements, the relevant Corporate Investor does not have the right to waive conditions (a) to (d) stated above.

**Corporate Investor Subscription Completion:**

The relevant Corporate Investor Subscription Completion will take place on the third business day following the day on which the conditions of the relevant Corporate Investor Subscription Agreement have been fulfilled or waived or such other date as may be agreed between the parties and shall take place simultaneously with the completion of the other Corporate Investor Subscription Agreement, the BEHL Subscription Agreement, the Placing Agreement and the HK Disposal Agreement. It is expected that the date of the Corporate Investor Subscription Completion will be on or before 27th April, 2001. The amount payable by each Corporate Investor under the Corporate Investor Subscription Agreements will be settled upon the Corporate Investor Subscription Completion and no deposit has been paid by each Corporate Investor pursuant to either of the Corporate Investor Subscription Agreements.

**Reasons and benefits of the Corporate Investor Subscriptions:**

As discussed on page 9 of this circular, in order to maintain sufficient public float upon the BEHL Subscription Completion, the Company has entered into the Corporate Investor Subscription Agreements.

HWL is an investment holding company and has invested in listed securities while INC Funds with fund size of US$35 million (equivalent to approximately HK$272 million) is managed by WI Harper Group, a high technology venture capital firm based in San Francisco, the United States of America. The Company believes the investments by the Corporate Investors in the Company may help the future business development of the Company after the Subscription Completion.

**Cost and expenses:**

The Company and the Corporate Investors will bear their own costs and expenses incurred in relation to the preparation of the Corporate Investor Subscription Agreements except that the Company shall bear all capital duty in relation to the increase in the authorised share capital of the Company.

**Ranking:**

The New Shares to be issued to the Corporate Investors will rank pari passu in all respects with the Shares in issue on the date of the Corporate Investor Subscription Completion, including ranking for payment of any dividend declared on and after the date of the Corporate Investor Subscription Completion. There will be no restrictions on the disposal of the New Shares to be issued to the Corporate Investors.

## 4. THE PLACING AGREEMENT

**Date:**

18th January, 2001

**Parties:**

The Company and the Placing Agent. The Placing Agent is independent of, and not acting in concert with, the Company, the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries, or their respective associates or concert parties (if any).

**Shares to be placed:**

Pursuant to the Placing Agreement, 30,000,000 New Shares will be placed, which represents approximately 34.98% of the issued share capital of the Company as at the Latest Practicable Date or approximately 9.88% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions.

**Issue Price:**

HK$1.00 per Share, further information about the Issue Price is set out in the section headed “Issue Price of the New Shares” below.

**Placees:**

The placees will be institutional or professional investors. Each of the placees will be independent of, and not connected and not acting in concert with, the Company, IFTL or BEHL, the directors, chief executives or substantial shareholders of the Company, IFTL or BEHL, or any of their subsidiaries or any of their respective associates or concert parties (if any).

**Conditions of the Placing:**

The Placing Completion is conditional upon:

(a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the New Shares to be issued by the Company upon the Placing Completion;

(b) the BEHL Subscription Agreement becoming unconditional in all respects save for any condition therein requiring the Placing Agreement to be unconditional in all respects;

(c) the passing of ordinary resolutions by the Independent Shareholders at the EGM by poll authorising the allotment and issue of the New Shares pursuant to the Placing; and

(d) the representations, warranties and undertakings given by the Company remaining true and accurate in all material respects at the Placing Completion.

In the event that any of the above conditions has not been fulfilled prior to 27th April, 2001 (or such later date as may be agreed between the parties), then the Placing Agent shall not be bound to proceed with the Placing and the Placing Agreement shall cease to be of any effect, save in respect of claims arising out of any antecedent breach of the Placing Agreement. Pursuant to the Placing Agreement, the Placing Agent does not have the right to waive any of the above conditions.

**Completion of the Placing:**

Subject to the fulfillment of the above conditions, the Placing Completion will take place simultaneously with the completion of the BEHL Subscription Agreement, the Corporate Investor Subscription Agreements and the HK Disposal Agreement.

## 5. ISSUE PRICE OF THE NEW SHARES

The issue price per New Share of HK$1.00 representing (i) a discount of approximately 33.33% to the closing price of HK$1.50 per Share as quoted on the Stock Exchange on 16th January, 2001, being the last trading date prior to the suspension of the trading of the Shares on 17th January, 2001; (ii) a discount of approximately 33.33% to the average closing price of approximately HK$1.50 per Share over the 10 trading days leading up to and including 16th January, 2001; (iii) a discount of approximately 25.37% to the average closing price of approximately HK$1.34 per Share over the 30 trading days leading up to and including 16th January, 2001; (iv) a premium of approximately 78.57% to the audited consolidated net asset value per Share of approximately HK$0.56 as at 31st December, 1999; (v) a discount of approximately 23.08% to the closing price on the Latest Practicable Date of HK$1.30 per Share; and (vi) a discount of approximately 23.08% to the average closing price of approximately HK$1.30 per Share over the 10 trading days leading up to the Latest Practicable Date. The Issue Price has been determined after arm's length negotiations between the parties involved, and the Directors, BEHL, the Corporate Investors and the Placing Agent have taken into account, amongst other things, the following factors:

- the significant increment in the prices and trading volume of the Shares after the publication of the Clarification Announcement. The closing price per Share increased from HK$1.19 on 6th December, 2000 to HK$1.50 on 16th January, 2001, representing an increase of about 26.05%;

- the respective average closing prices per Share for the 10, 30 and 60 days period up to and including 16th January, 2001 were about HK$1.50, HK$1.34 and HK$1.12 respectively;

- the audited consolidated net asset value per Share of approximately HK$0.56 as at 31st December, 1999; and

- the audited net loss attributable to the Shareholders for the year ended 31st December, 1999 of approximately HK$50,190,000.

Both the Directors and the directors of BEHL believe that the Issue Price is fair and reasonable as far as the Shareholders are concerned.

## 6. REASONS FOR THE SUBSCRIPTIONS

The audited net loss attributable to the Shareholders was approximately HK$50,190,000 for the year ended 31st December, 1999 and as disclosed in the Company's published interim report, the unaudited net loss attributable to the Shareholders for the six months ended 30th June, 2000 was approximately HK$11,520,000. The audited consolidated net asset value of the Group as at 31st December, 1999 was approximately HK$47,800,000. The Group also incurred interest bearing borrowings of approximately HK$157,700,000, HK$169,500,000 and HK$165,700,000 as at 31st December, 1999, 30th June, 2000 and 31st December, 2000 respectively. Given such operating results and level of borrowings of the Company, the Directors consider that there is funding pressure on the Company. The Directors are not aware of any significant area of uncertainty in the audited consolidated accounts of the Group for the year ended 31st December, 1999, the unaudited consolidated interim accounts of the Group for the six months ended 30th June, 2000 and the unaudited consolidated management accounts of the Group for the ten months ended 31st October, 2000.

The Directors (including the independent non-executive directors of the Company) consider that the Subscriptions will increase the capital base of the Company and provide a solid financial foundation for the Group to continue the development of its existing business and invest in other businesses, including business in the information technology and telecommunications sectors. The Directors further believe that the Subscriptions will not only improve the Group's financial position but is also important to the Group's future business development.

Upon the Subscription Completion, BEHL, through IFTL, will become the controlling shareholder of the Company and intends to use the Company as the major investment vehicle for investment in the information technology and telecommunications sectors. Further information about the intention of BEHL on the Group is set out in the paragraph headed "BEHL's intention on the Group" below. The Directors believe that given the well-established business networks and resources of BEHL and its strong financial backings, the BEHL Subscription will enable the Group to enhance its relationship with BEHL, and through such relationship, to explore various business opportunities, including opportunities in the information technology and telecommunication sectors. Therefore, the Directors consider that the implementation of the Subscriptions, including the BEHL Subscription, is in the interest of the Group.

The Directors intend to maintain the listing of the Shares on the Stock Exchange. The purpose of implementing the Corporate Investor Subscriptions and the Placing is to enlarge the shareholder base of the Company and to maintain sufficient Shares in public hands to satisfy Rule 8.08 of the Listing Rules. The Corporate Investor Subscriptions and the Placing are expected to result in a public holding of approximately 25.39% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions. In addition, the Directors believe that the investments by the Corporate Investors in the Company could help the future business development of the Company after the Subscription Completion.

The Directors intend that the Company will continue its existing business except for the trading and manufacturing business of woollen and worsted products which will be disposed of pursuant to the Disposals. The Directors will also actively study various business opportunities of further diversifying into other businesses, including exploring business opportunities in the information technology and telecommunications sectors, including network infrastructure facilities, network construction, network system integration, Internet support related services as well as smart card development.

## 7. THE DISPOSAL AGREEMENTS

***In respect of the HK Disposal Agreement***

**Date:**

18th January, 2001

**Parties:**

Vendor: The Company
Purchaser: GMG
Guarantor: IHL

**Particulars of the HK Disposal Agreement:**

The HK Disposal Agreement provides for the sale by the Company to GMG of (a) the interest of the Company of 70% of the issued share capital of Sino Textile for a cash consideration of HK$1.00 per share, amounting to a cash consideration of HK$70; (b) all the benefits and interest of and in the Shareholder's Loan at a dollar-for-dollar cash consideration of HK$1,518,208; and (c) the Worsted Products at a cash consideration of HK$4,502,949. IHL will guarantee the performance of the obligations on the part of GMG and indemnify the Company against all losses or expenses which the Company may suffer through or arising from any breach by GMG of such obligations. The Directors consider that the terms of the HK Disposal Agreement, which have been agreed on commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned. As a result of the HK Disposal, the Group will recognise a profit of approximately HK$777,000 (which is estimated based on the consideration less the book value as at 31st October, 2000).

**Consideration:**

The aggregate cash consideration for the HK Disposal is HK$6,021,227, which was determined by reference to the aggregate of (i) the aggregate par value of the 70 shares of Sino Textile of HK$70; (ii) the amount of HK$1,518,208 of the Shareholder's Loan as at 31st October, 2000; and (iii) the book value of Worsted Products of HK$4,502,949 as at 31st October, 2000. The Directors consider that taking into account (i) the net liabilities of approximately HK$1,110,000 of Sino Textile as at 31st October, 2000; (ii) the track record and financial position of Sino Textile as set out in the section headed "Information on Sino Textile" below; (iii) the market environment of Sino Textile; (iv) the cash consideration of the Shareholder's Loan on a dollar-for-dollar basis; and (v) the aggregate cash consideration of the HK Disposal which is equivalent to a premium of approximately HK$777,000 to the aggregate value of the Company's attributable interest to the net liabilities of Sino Textile as at 31st October, 2000, the amount of the Shareholder's Loan and the book value of the Worsted Products as at 31st October, 2000, the aggregate consideration for the HK Disposal is fair and reasonable so far as the Shareholders, including the Independent Shareholders, are concerned. No deposit is required to be paid by GMG pursuant to the HK Disposal Agreement.

**Conditions of the HK Disposal:**

Completion of the HK Disposal Agreement is conditional upon the following conditions being fulfilled or, in the case of condition (a), being waived by GMG:

(a) the warranties under the HK Disposal Agreement remaining true and accurate and not misleading in all material respects at the completion of the HK Disposal Agreement;

(b) the transactions contemplated under the HK Disposal Agreement being approved by the Independent Shareholders at the EGM taken by a poll;

(c) the BEHL Subscription Agreement becoming unconditional in all respects save for any condition therein requiring the HK Disposal Agreement to be unconditional in all respects;

(d) the PRC Party which owns the remaining 50% interest in Beijing Jin Yang granting its written consent to the transfer of the Company's 50% interest in Beijing Jin Yang from the Company to GMG and a written waiver of its pre-emptive right to purchase such interest of the Company; and

(e) the Special Deal Consent being obtained under Rule 25 of the Takeovers Code in connection with the HK Disposal Agreement and the JV Disposal Agreement.

In the event that any of the above conditions has not been fulfilled or waived on or before 27th April, 2001 (or such later date as may be agreed between the parties), then GMG shall not be bound to proceed with the purchase of the Sale Shares, the Shareholder's Loan and the Worsted Products and the HK Disposal Agreement shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the HK Disposal Agreement. Pursuant to the HK Disposal Agreement, GMG does not have the right to waive conditions (b), (c), (d) and (e) above. As indicated under the paragraph headed "Conditions of the JV Disposal" below, condition (d) above has been satisfied.

***In respect of the JV Disposal Agreement***

**Date:**

18th January, 2001

**Parties:**

Vendor: The Company
Purchaser: GMG
Guarantor: IHL

**Particulars of the JV Disposal Agreement:**

Pursuant to the JV Disposal Agreement, the Company has conditionally agreed to sell, and GMG has conditionally agreed to purchase, the Company's 50% interest in Beijing Jin Yang at a cash consideration of HK$19,618,897. The Directors consider that the terms of the JV Disposal Agreement, which have been agreed on commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned. As a result of the JV Disposal, the Group will not recognise any profit or loss (which is estimated based on the consideration less current book value).

**Consideration:**

The cash consideration for the JV Disposal is HK$19,618,897, which was determined by reference to the 50% share of net asset value of Beijing Jin Yang attributable to the Group of HK$19,618,897 based on its unaudited management account as at 31st October, 2000. The Directors consider that taking into account (i) the track record and financial position of Beijing Jin Yang as set out in the section headed "Information on Beijing Jin Yang" below; (ii) the market environment of Beijing Jin Yang; and (iii) the consideration of the JV Disposal being equivalent to the share of net asset value of 50% interest in Beijing Jin Yang as at 31st October, 2000, the consideration for the JV Disposal is fair and reasonable so far as the Shareholders, including the Independent Shareholders, are concerned. No deposit is required to be paid by GMG pursuant to the JV Disposal Agreement.

**Conditions of the JV Disposal:**

Completion of the JV Disposal is conditional upon, inter alia, the following conditions being fulfilled or, in the case of condition (f), being waived by GMG:

(a) the approval obtained from the relevant PRC approval authorities regarding the JV Disposal, the termination of the original joint venture contract, the revised joint venture contract and articles of association and change in the board of directors of Beijing Jin Yang;

(b) the PRC Party which owns the remaining 50% interest in Beijing Jin Yang granting its written consent to the transfer of the Company's 50% interest in Beijing Jin Yang from the Company to GMG and a written waiver of its pre-emptive right to purchase such interest of the Company;

(c) the transactions contemplated under the JV Disposal Agreement being approved by the Independent Shareholders at the EGM taken by a poll;

(d) the BEHL Subscription Agreement becoming unconditional in all respects;

(e) the Special Deal Consent being obtained under Rule 25 of the Takeovers Code in connection with the HK Disposal Agreement and the JV Disposal Agreement; and

(f) the warranties under the JV Disposal Agreement remaining true and accurate in all material respects and not misleading as at the completion of the JV Disposal Agreement.

In the event that any of the above conditions has not been fulfilled or waived on or before 29th June, 2001 (or such later date as may be agreed between the parties), then GMG shall have the right to terminate the JV Disposal Agreement. The JV Disposal Agreement shall terminate with effect from the date on which GMG issues a written notice of termination and the parties shall cease to be bound by their obligations thereunder save in respect of claims arising out of any antecedent breach of the JV Disposal Agreement. Pursuant to the JV Disposal Agreement, GMG does not have the right to waive conditions (a), (b), (c), (d) and (e) above.

The PRC Party which owns the remaining 50% interest in Beijing Jin Yang has already granted its consent to the transfer of the Company's 50% interest in Beijing Jin Yang from the Company to GMG and the waiver of its pre-emptive right to purchase such interest of the Company. Accordingly, condition (b) of the JV Disposal Agreement has been satisfied.

## 8. REASONS FOR THE DISPOSALS

The trading and manufacturing operations of woollen and worsted products of the Company have suffered loss during the past few years. The Directors consider that strong competition would continue to be present in the trading and manufacturing business of woollen and worsted products. It would take time and demand resources for the Group to improve the trading and manufacturing operations of the woollen and worsted products. Accordingly, it is the intention of the Group to discontinue the trading and manufacturing businesses of woollen and worsted products as a result of the Disposals and the Directors believe that the Disposals represent a good opportunity to realise its investments in the trading and manufacturing operations of woollen and worsted products and allow additional capital to expand and diversify the Group's business.

## 9. USE OF PROCEEDS FROM THE SUBSCRIPTIONS AND THE DISPOSALS

The aggregate gross and net proceeds from the Subscriptions and the Disposals are estimated to amount to approximately HK$243,640,000 and HK$237,000,000 respectively. It is intended that not more than half of the net proceeds received from the Subscriptions and the Disposals will be used to repay part of the bank loans and other borrowings with an aggregate amount of approximately HK$197,000,000 as at 31st December, 2000 and the remaining proceeds will be used as working capital principally to invest and develop the business of the Group to include those in the information technology and telecommunications sectors, in particular, network infrastructure facilities, network construction, network system integration, Internet support related services as well as smart card development. Such investment and/or development in the information technology and telecommunications sectors will be conducted through various means including, but not limited to, internal development, investments, joint ventures, share swaps, cooperative agreements and/or strategic alliances. Any acquisition by the Company will be subject to compliance with the requirements of the Listing Rules. At present, neither agreements nor negotiations have been entered into with respect to any acquisition.

## 10. CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY AS A RESULT OF THE SUBSCRIPTIONS

The shareholding structures of the Company immediately before and after the Subscription Completion are as follows:

| | **Immediately before the Subscription Completion** *(Note 1)* *Shares* | *%* | **Immediately after the Subscription Completion** *(Note 1)* *Shares* | *%* |
|---|---|---|---|---|
| IFTL | – | – | 168,000,000 | *55.31* |
| GDL *(Note 2)* | – | – | 10,000,000 | *3.29* |
| INC Funds *(Note 2)* | – | – | 10,000,000 | *3.29* |
| IHL | 58,618,368 | *68.35* | 58,618,368 | *19.30* |
| Placees *(Note 2)* | – | – | 30,000,000 | *9.88* |
| Other shareholders *(Note 2)* | 27,140,382 | *31.65* | 27,140,382 | *8.93* |
| **Total** | **85,758,750** | | **303,758,750** | |

*Notes:*

1. The figures assume that other than the New Shares, no new Shares will be issued or repurchased by the Company after the date of this circular and up to the date of the Subscription Completion.

2. Upon the Subscription Completion, the Shares held by these shareholders are considered as part of the public float.

It is the intention of BEHL to maintain the listing of the Shares on the Stock Exchange after the Subscription Completion.

## 11. GENERAL MANDATE TO ISSUE AND TO REPURCHASE SHARES

A resolution will be put to the Shareholders at the EGM to approve the granting of the Mandate to the Directors to allot, issue and deal with additional Shares equal to a maximum of 20% of the issued share capital of the Company as enlarged by the issue of the New Shares pursuant to the Subscriptions.

The Mandate is subject to the passing of the relevant ordinary resolutions to approve the increase in the authorised share capital of the Company, the allotment and issue of the New Shares pursuant to the Subscriptions and the Whitewash Waiver. The Mandate will remain effective until the conclusion of the Company's next annual general meeting or the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held or until revoked or varied by an ordinary resolution of the Shareholders, whichever occurs first.

Upon the Mandate taking effect, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with additional Shares pursuant to the ordinary resolution passed by the Shareholders at the annual general meeting held on 27th June, 2000 will be revoked.

It is also intended that a resolution be put to the Shareholders at the EGM granting the Directors a general mandate authorising the repurchase by the Company on the Stock Exchange of up to 10% of the aggregate amount of the issued Shares as enlarged by the issue of the New Shares pursuant to the Subscriptions. This repurchase mandate will remain effective until the conclusion of the Company's next annual general meeting or the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held or until revoked or varied by an ordinary resolution of the Shareholders, whichever occurs first.

An explanatory statement as required by the relevant provisions of the Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in Appendix IV to this circular.

## 12. TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, none of IFTL, BEHL, the Corporate Investors or any of their respective associates or concert parties (if any) owns any Shares or is interested in any Shares other than Shares to be acquired pursuant to the BEHL Subscription Agreement and the Corporate Investor Subscription Agreements respectively. Upon Subscription Completion, IFTL, BEHL and its associates will be interested in 168,000,000 Shares, representing approximately 55.31% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions. Neither IFTL, BEHL, the Corporate Investors nor any person acting in concert with any of them for the purposes of the Takeovers Code has dealt in the Shares during the six months period prior to the date of the Announcement and up to the Latest Practicable Date.

Under Rule 26 of the Takeovers Code, upon the BEHL Subscription Completion, IFTL and its concert parties would be obliged, unless the Whitewash Waiver is granted, to make an unconditional general offer for all the issued Shares not then already owned or agreed to be acquired by IFTL or its concert parties.

The BEHL Subscription Completion is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive. Pursuant to the BEHL Subscription Agreement, IFTL will not waive this condition. An application has been made by IFTL and BEHL to the

Executive for the Whitewash Waiver which, if granted, would normally be subject to the approval of the Independent Shareholders on a vote taken by way of a poll. The Executive has agreed, subject to the approval by the Independent Shareholders by way of a poll, to grant the Whitewash Waiver. The Executive has indicated that any purchase of the Shares by IFTL, BEHL or any person acting in concert with either of them during the 6 month period prior to the date of the Announcement (but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the BEHL Subscription) and up to the date of the EGM will be deemed as a disqualifying transaction under paragraph 3 of Schedule VI of the Takeovers Code. If any such disqualifying transaction shall occur prior to the date of the EGM, the Whitewash Waiver will be invalidated.

**There will be no general offer for the Shares as a result of the BEHL Subscription.**

**If the Whitewash Waiver is approved by the Independent Shareholders and immediately upon the Subscription Completion, BEHL (through IFTL) and its concert parties (if any) will hold approximately 55.31% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions and as such, BEHL and its concert parties (if any) may be free to acquire additional Shares thereafter without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.**

## 13. SPECIAL DEAL CONSENT/CONNECTED TRANSACTION

The Disposal Agreements constitute special deals under Rule 25 of the Takeovers Code and hence require consent from the Executive. An application has been made to the Executive for the Special Deal Consent. The Executive has indicated that the Special Deal Consent will be granted, subject to the Independent Financial Advisers stating in their opinion that the terms of the Disposal Agreements are fair and reasonable and, the Independent Shareholders passing the relevant resolution to approve the Disposal Agreements on a vote taken by way of a poll at the EGM.

In addition, as at 16th January, 2001, IHL beneficially owned an aggregate of approximately 68.35% of the issued share capital of the Company. Accordingly, the BEHL Subscription (in which IHL is acting as warrantor) and the Disposals constitute connected transactions of the Company for the purposes of the Listing Rules. Since the aggregate consideration of the Disposals of HK$25,640,124 represents approximately 53.64% of the audited consolidated net assets of the Group as at 31st December, 1999, the Disposals also constitute major transactions of the Company for the purposes of the Listing Rules. Accordingly, the BEHL Subscription and the Disposals may only proceed if Independent Shareholders' approval is obtained.

IFTL, BEHL, any of their respective associates and their respective concert parties in relation to the Company will, to the extent of any shareholding in the Company which any of them may have, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

As at the Latest Practicable Date, GMG is not interested in any Share. However GMG, any of its associates and persons acting in concert with any of them in relation to the Company for the purpose of the Takeovers Code and the Listing Rules will, to the extent of any shareholding held by each of them in the Company, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

IHL, any of its associates and their respective concert parties in relation to the Company will, to the extent of any shareholding in the Company which any of them may have, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

As at the Latest Pracitcable Date, GDL and HWL are not interested in any Shares. However, GDL, HWL, any of their respective associates and their respective concert parties in relation to the Company will, to the extent of any shareholding in the Company which any of them may have, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

As at the Latest Pracitcable Date, INC Funds is not interested in any Shares. However, INC Funds, any of its associates and their respective concert parties in relation to the Company will, to the extent of any shareholding in the Company which any of them may have, abstain from voting on the resolutions to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements at the EGM.

## 14. INFORMATION ON THE GROUP

### Business

The Company is incorporated in Hong Kong with limited liability and its Shares are listed on the Stock Exchange. The Group is principally engaged in the trading and manufacturing of woollen and worsted products, property investment and restaurant operations.

**Financial information**

The following table sets out a summary of the results of the Company for the three years ended 31st December, 1999, the six months ended 30th June, 2000 and the ten months ended 31st October, 2000:

| | (Audited) For the year ended 31st December, 1997 | (Audited) For the year ended 31st December, 1998 | (Audited) For the year ended 31st December, 1999 | (Unaudited) For the six months ended 30th June, 2000 | (Unaudited) For the ten months ended 31st October, 2000 |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK'000* |
| Turnover | 113,580 | 117,716 | 127,785 | 90,391 | 144,463 |
| Loss attributable to Shareholders | 13,967 | 34,450 | 50,190 | 11,520 | 18,993 |

For the year ended 31st December, 1999, the turnover attributable to the trading operations of woollen and worsted products, the restaurants operations, the property investment operations and other general trading was approximately HK$23,000,000, HK$94,800,000, HK$8,100,000 and HK$1,800,000 respectively, representing approximately 18.02%, 74.22%, 6.32% and 1.44% respectively of the total turnover of the Group for the year ended 31st December, 1999. For the year ended 31st December, 1999, the loss from operating activities attributable to the trading operations of woollen and worsted products, the restaurants operations, the property investment operations and other general trading was approximately HK$8,800,000, HK$4,900,000, HK$10,100,000 and HK$600,000 respectively, representing approximately 36.12%, 20.21%, 41.27% and 2.40% respectively of the loss from operating activities for the year ended 31st December, 1999.

The audited consolidated net asset value of the Company as at 31st December, 1999 was approximately HK$47,800,000. The bank loans and other borrowings of the Group amounted to approximately HK$182,000,000 and HK$197,000,000 as at 31st December, 1999 and 31st December, 2000 respectively.

**15. INFORMATION ON SINO TEXTILE**

Sino Textile, a company incorporated in Hong Kong in 1995, is owned as to 70% by the Company and as to 30% by Ms. Wong Ching Yi, Irene, other than by virtue of the fact that Ms. Wong is a substantial shareholder of Sino Textile, Ms. Wong is an independent third party who is independent of, and not connected and not acting in concert with, the Company, IFTL or BEHL, the directors, chief executive or substantial shareholders of the Company, IFTL or BEHL, any of their subsidiaries or any of their respective associates or concert parties (if any). As at the Latest Practicable Date, Sino Textile is not interested in any Shares. It is principally engaged in the trading of woollen and worsted products. The audited net profit (loss) of Sino Textile for the two years ended 31st December, 1999 were approximately HK$(264,000) and HK$203,000 respectively. The audited net liabilities of Sino Textile as at 31st December, 1999 attributable to the Group was approximately HK$738,000. In addition, based on the management accounts of the Group, the net loss of Sino Textile for the ten months ended 31st October, 2000 was approximately HK$56,000 and the net liabilities of Sino Textile as at 31st October, 2000 was approximately HK$1,110,000.

**16. INFORMATION ON BEIJING JIN YANG**

Beijing Jin Yang is a sino-foreign joint venture established in the PRC in 1996 with a term of 20 years. Beijing Jin Yang is owned as to 50% by the Company and as to the remaining 50% by the PRC Party, an independent third party who is independent of, and not connected and not acting in concert with, the Company, IFTL or BEHL, the directors, chief executive or substantial shareholders of the Company, IFTL or BEHL, any of their subsidiaries or any of their respective associates or concert parties (if any). The registered capital of Beijing Jin Yang is US$11,180,000 (approximately HK$86,869,000). It is engaged in the manufacturing of woollen and worsted products. The net loss of Beijing Jin Yang attributable to the Group, which had been made in the audited accounts of the Group, prepared in accordance with HK GAAP, for each of the two years ended 31st December, 1999 were approximately RMB1,030,000 (approximately HK$958,000) and RMB14,843,000 (approximately HK$13,807,000) respectively. The Group's share of net assets of Beijing Jin Yang, which had been made in the audited accounts of the Group prepared in accordance with HK GAAP as at 31st December, 1999, was approximately RMB25,947,000 (approximately HK$24,136,000). In addition, based on the management accounts of the Group, the net loss of Beijing Jin Yang attributable to the Group for the ten months ended 31st October, 2000 was approximately RMB4,858,000 (approximately HK$4,519,000) and the Group's share of net asset value of Beijing Jin Yang as at 31st October, 2000 was approximately RMB21,090,000 (approximately HK$19,618,000).

**17. INFORMATION ON IHL**

IHL is a company incorporated in the British Virgin Islands and is the controlling shareholder of the Company and owned 58,618,368 Shares representing approximately 68.35% of the issued share capital of the Company as at the Latest Practicable Date. IHL is indirectly owned as to 70% by BITIC and directly owned as to 30% by Sunbird. Mr. Ng Kwong Fung and Mr. Ng Kong Fat, Brian together own 100% of the issued share capital of Sunbird. Mr. Bai Jin Rong, Mr. Ng Kong Fat, Brian and Mr. Ng Kwong Fung, directors of IHL, are also directors of the Company. In addition, Mr. Bai Jin Rong is also an executive vice-president and a director of BEHL.

## 18. INFORMATION ON BEHL AND IFTL

### Business

BEHL is an investment holding company incorporated in Hong Kong, whose shares are listed on the Stock Exchange. BEHL and its subsidiaries are principally engaged in four major sectors of businesses: consumer goods, infrastructure, services and technology. Consumer goods sector includes manufacture, distribution and sale of beer, wine, dairy products and processed meat and seafood products. Infrastructure sector includes management and operation of the Capital Airport Expressway in Beijing, the PRC and the operation concession of a water treatment plant. Service sector includes provision of tourism, retail and hotel services. Technology sector is mainly represented by the BEHL Group's 40% interest in a joint venture with Siemens AG producing switching system. The BEHL Group also started several technology-related projects.

The ultimate controlling shareholder of the BEHL Group is Beijing Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability and wholly owned by the Beijing Municipal Government. Beijing Holdings Limited is acting as the primary trading and commercial vehicle for the Beijing Municipal Government in Hong Kong. Supported by the unique and close relationship with the Beijing Municipal Government, the BEHL Group is well positioned to effectively access information in relation to economic developments in Beijing and to take advantage of investment opportunities in Beijing.

IFTL is a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of BEHL.

### Financial information

The following table sets out a summary of the results of the BEHL Group for the three years ended 31st December, 1999 and the six months ended 30th June, 2000:

| | **(Audited) For the year ended 31st December,** | | | **(Unaudited) For the six months ended 30th June,** |
|---|---|---|---|---|
| | **1997** | **1998** | **1999** | **2000** |
| | *(Note)* | | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 3,370,694 | 3,396,578 | 3,823,713 | 2,482,995 |
| Profit attributable to shareholders | 811,208 | 474,460 | 485,030 | 260,953 |

*Note:* The pro forma combined income statement for the year ended 31st December, 1997, which is presented for information purposes only, has been prepared in accordance with HK GAAP to show the results of the BEHL Group for the year ended 31st December, 1997 as if the BEHL Group structure had been in existence throughout that year.

The audited consolidated net asset value of the BEHL Group as at 31st December, 1999 was approximately HK$6,169 million.

## 19. INFORMATION ON GDL AND INC FUNDS

### Information on GDL

GDL is a company incorporated in the British Virgin Islands with limited liability and is an indirect wholly-owned subsidiary of HWL. HWL is a company incorporated in Hong Kong, whose shares are listed on the Stock Exchange. HWL and its subsidiaries are principally engaged in ports and related services, telecommunications and e-commerce, property development and hotel, retail and manufacturing and energy, infrastructure, finance and investments.

### Information on INC Funds

INC Funds, a company incorporated in the Cayman Islands in April 1996, with fund size of US$35 million (approximately HK$272 million) is managed by WI Harper Group, a high technology venture capital firm based in San Francisco, the United States of America. WI Harper Group focuses particularly on investment opportunities in the high technology sector in the Greater China Region (including Hong Kong, China and Taiwan) and Silicon Valley in the United States of America. INC Funds focuses on investment opportunities in information technology and bio-technology sectors in North America, Asia Pacific and Europe.

## 20. BEHL'S INTENTION ON THE GROUP

### Business

Upon the Subscription Completion, BEHL, through IFTL, will become the controlling shareholder of the Company. It is the intention of BEHL that the Group will continue its existing businesses of property investment and restaurant operations and will continue to employ the employees of the Group. In addition, BEHL, with the continuous support from the Beijing Municipal Government, plans to develop the Company as its major flagship for investment in information technology and telecommunications sectors. Upon and after the Subscription Completion, it is the intention of BEHL that the Company will continue to evaluate investment opportunities (including the existing investments of the BEHL Group) in information technology and telecommunications sectors, when it arises. BEHL may or may not inject its existing investments in information technology and telecommunications sectors to the Group. Nevertheless, the Company will only invest in projects that are in the interest of the shareholders as a whole and beneficial to the Group. Any future injection of assets into the Group will be subject to the provision of the Listing Rules. It is the intention of BEHL that the business of BEHL will not compete with that of the Group. In the event that any new business to be developed by the Group would result in competition between the Group and BEHL, the Company would disclose it in full, as appropriate.

It is also the intention of BEHL that the Company will continue to maintain strategic partnership with its Corporate Investors and capitalise on their experiences in the information technology and telecommunications sectors. Accordingly, the Group will diversify its business to include those in the information technology and telecommunications sectors, in particular, network infrastructure facilities construction, network system integration, Internet support related services as well as smart card development. It is aimed that the Group will become the leading network infrastructure facilities constructor, play an important role in the long-term development plan of electronic transactions and provide first-class network connection services in Beijing, the PRC.

**Directors and employees of the Company**

There are currently five Directors (including two independent non-executive Directors) on the Board. It is intended that all of them will remain on the Board immediately after the Subscription Completion. In order to ensure a smooth transition and maintain management consistency, it is also intended that there will be no material change in the existing senior management and employees of the Company. Depending on future business development, IFTL may nominate additional candidates to the Board. At present, IFTL is still in the process of finding suitable candidates with relevant information technology, telecommunications or professional corporate finance background. Further details will be provided to the Shareholders once identified.

## 21. MAINTAINING THE LISTING OF THE COMPANY

It is the intention of the directors of BEHL to maintain the listing of the Company on the Stock Exchange after the Subscription Completion.

**The Stock Exchange has stated that it will closely monitor trading in the Shares if less than 25% of the Shares is held by the public. If the Stock Exchange believes that:**

- **a false market exists or may exist in the Shares; or**

- **there are too few Shares in public hands to maintain an orderly market,**

**it will consider exercising its discretion to suspend trading in the Shares.**

**The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has the discretion to require the Company to issue a circular to its shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new listing applicant.**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares.

## 22. THE EGM

There is set out on pages 120 to 124 of this circular a notice convening the EGM to be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at 10:30 a.m. on 16th March, 2001 at which ordinary resolutions will be proposed to the Shareholders to approve, inter alia:

- the increase in the authorised share capital of the Company;
- the allotment and issue of the New Shares;
- the Whitewash Waiver;
- the Disposal Agreements;
- the Mandate to be given to the Directors to allot, issue and deal with additional Shares; and
- the general mandate to be given to the Directors to repurchase Shares.

In accordance with the provisions of the Takeovers Code, the ordinary resolutions to approve the allotment and issue of the New Shares, the Disposal Agreements and the Whitewash Waiver shall be approved by the Independent Shareholders by way of a poll.

A form of proxy for use at the EGM is enclosed. Whether or not you (as a Shareholder) are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's share registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

## 23. ADVICE

The Directors consider that the increase in the authorised share capital of the Company, the general mandate to be given to the Directors to allot, issue and deal with additional Shares and other securities in the Company, the general mandate to be given to the Directors to repurchase Shares, the Subscriptions, the Disposal Agreements and the Whitewash Waiver are in the best interests of the Company. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions relating to the increase in the authorised share capital of the Company, the mandate to the Directors to allot, issue and deal with additional Shares and other securities in the Company and the general mandate to be given to the Directors to repurchase Shares, the Subscriptions, the Disposal Agreements and the Whitewash Waiver.

You will receive separate advice from the Independent Board Committee (after considering the advice from the Independent Financial Advisers) regarding the Whitewash Waiver, the allotment and issue of the New Shares pursuant to the Subscriptions and the Disposal Agreements. The letters from the Independent Board Committee and the Independent Financial Advisers can be found on pages 38 to 39 and 40 to 57 respectively of this circular.

**24. GENERAL**

Your attention is drawn to the additional information set out in the appendices to this circular, the letter from the Independent Board Committee, the letter from the Independent Financial Advisers in respect of the Subscriptions, the Whitewash Waiver and the Disposal Agreements, and the notice of the EGM.

By Order of the Board
**Beijing Development (Hong Kong) Limited**
**Ng Kong Fat, Brian**
*Managing Director*

# BEIJING DEVELOPMENT (HONG KONG) LIMITED
# 北京發展（香港）有限公司

*(Incorporated in Hong Kong with limited liability)*

23rd February, 2001

*To the Independent Shareholders*

Dear Sir or Madam,

## The Subscriptions,
## application for the Whitewash Waiver and the Special Deal Consent
## and
## major and connected transactions and special deals for the Company in relation to the Disposals

We refer to the circular of the Company despatched to the Shareholders dated 23rd February, 2001 (the "Circular"), of which this letter forms part. Terms defined herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As the Directors who are independent of the parties to the Subscriptions and the Disposals, we have been appointed by the Board to advise you as to whether, in our opinion, the Subscriptions, the Whitewash Waiver and the Disposal Agreements are in the interests of the Company and whether the terms of the Subscriptions, the granting of the Whitewash Waiver and the terms of the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

Asia Financial and Horwath Capital have been appointed as the independent financial advisers to advise us regarding the Subscriptions, the Whitewash Waiver and the Disposal Agreements. Details of their advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out in their letter on pages 40 to 57 of the Circular.

Your attention is also drawn to the "Letter from the Board" set out on pages 8 to 37 and the additional information set out in the appendices to the Circular.

Having taken into account the terms of the Subscriptions, the Whitewash Waiver and the terms of the Disposal Agreements, the interests of the Independent Shareholders and the advice of the Independent Financial Advisers, we consider that the terms of the Subscriptions, the granting of the Whitewash Waiver and the terms of the Disposal Agreements are fair and reasonable. Accordingly, we recommend that the Independent Shareholders should vote in favour of the ordinary resolutions approving the Subscriptions, the Whitewash Waiver and the Disposal Agreements.

Yours faithfully,
**The Independent Board Committee**

| | |
|---|---|
| **Wu Shi Xiong** | **Feng Ching Yeng, Frank** |
| *Independent non-executive Director* | *Independent non-executive Director* |

*The following is the text of a letter from Asia Financial Capital Limited and Horwath Capital Asia Limited, the joint independent financial advisers to the Independent Board Committee, prepared for the purpose of inclusion in this circular.*

亞 洲 融 資
ASIA FINANCIAL CAPITAL
A Member of Asia Financial Group
Asia Financial Capital Limited
12th Floor, Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

Horwath
**Horwath Capital Asia Limited**
2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong

23rd February, 2001

*To the Independent Board Committee of*
*Beijing Development (Hong Kong) Limited*

Dear Sirs,

**The Subscriptions,**
**application for the Whitewash Waiver and the Special Deal Consent**
**and**
**major and connected transactions and special deals for the Company**
**in relation to the Disposals**

We refer to the Subscriptions, the Whitewash Waiver, the Disposals and the Special Deal Consent, details of which are contained in the circular dated 23rd February, 2001 to the Shareholders (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless otherwise stated.

The Independent Shareholders will be advised by the Independent Board Committee. Mr. Bai Jin Rong, Mr. Ng Kong Fat, Brian and Mr. Ng Kwong Fung are salaried Directors. Mr. Bai Jin Rong, a Director and the Chairman of the Company, is also an executive vice-president and a director of BEHL. As at the Latest Practicable Date, Mr. Ng Kwong Fung and Mr. Ng Kong Fat, Brian together owned 100% of the issued share capital of Sunbird. Sunbird owned 30% of the issued share capital of IHL, which in turn owned approximately 68.35% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, Mr. Ng Kwong Fung and Mr. Ng Kong Fat, Brian are indirectly interested in the issued share capital of the Company held by IHL. None of Mr. Bai Jin Rong, Mr. Wu Shi Xiong nor Mr. Feng Ching Yeng, Frank is directly or indirectly interested in the issued share capital of the Company as at the Latest Practicable Date.

Under the Takeovers Code, Mr. Bai Jin Rong, Mr. Ng Kong Fat, Brian and Mr. Ng Kwong Fung are considered not independent to advise the Independent Shareholders on the Subscriptions, the Whitewash Waiver and the Disposals. Mr. Wu Shi Xiong and Mr. Feng Ching Yeng, Frank, who are neither salaried Directors nor involved in or interested in the Subscriptions or the Disposals have been appointed to consider and advise the Independent

Shareholders on the Subscriptions, the Whitewash Waiver and the Disposal Agreements. Asia Financial and Horwath Capital have been appointed as joint independent financial advisers to advise the Independent Board Committee in respect of the Subscriptions, the Whitewash Waiver and the Disposal Agreements.

The Disposals constitute major and connected transactions for the Company under the Listing Rules and special deals requiring the consent from the Executive under Note 4 to Rule 25 of the Takeovers Code. The Disposal Agreements, together with the Subscriptions and the Whitewash Waiver, are subject to the approval of the Independent Shareholders at the EGM by way of a poll.

In formulating our opinion, we have relied on the information, representations and valuations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which had been provided by the Directors were true and accurate at the time when they were made and continue to be so as at the date of the Circular. We have also assumed that the property valuations prepared by CB Richard Ellis are fair and accurate and all statements of belief and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify relying on the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material fact has been omitted or withheld from the information contained in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted any form of in-depth investigation into the business and affairs of the Group, Sino Textile, Beijing Jin Yang, the BEHL Group, the Corporate Investors and their respective associates.

## THE SUBSCRIPTIONS

### Principal factors considered

In arriving at our opinion in respect of the terms of the Subscriptions, we have taken into consideration the following principal factors:

1. *Background of and information on the Subscriptions, the BEHL Group and the Corporate Investors*

   On 18th January, 2001, the Company entered into the BEHL Subscription Agreement, the GDL Subscription Agreement and the INC Funds Subscription Agreement, pursuant to which each of IFTL, GDL and INC Funds conditionally agreed to subscribe for 168,000,000, 10,000,000 and 10,000,000 New Shares respectively, at an issue price of HK$1.00 each, for a total cash consideration of HK$168 million, HK$10 million and HK$10 million respectively.

The 168,000,000, 10,000,000 and 10,000,000 New Shares under the BEHL Subscription, the GDL Subscription and the INC Funds Subscription represent (a) approximately 195.90%, approximately 11.66% and approximately 11.66% respectively of the issued share capital of the Company as at the Latest Practicable Date; and (b) approximately 55.31%, approximately 3.29% and approximately 3.29% respectively of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions.

Save for the fact that one of the executive directors of BEHL, Mr. Bai Jin Rong, is also the Director and Chairman of the Company, each of IFTL, GDL and INC Funds is independent of and not connected or acting in concert with the Company, the directors, chief executive or substantial shareholders of the Company and any of its subsidiaries or any of their respective associates.

IFTL is a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of BEHL. BEHL is an investment holding company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange. The BEHL Group is principally engaged in four major sectors of business: consumer goods, infrastructure, services and technology. Consumer goods sector includes manufacture, distribution and sale of beer, wine, dairy products, processed meat and seafood products. Infrastructure sector includes management and operation of the Capital Airport Expressway in Beijing, the PRC and the operation concession of a water treatment plant. Service sector includes provision of tourism, retail and hotel services. Technology sector is mainly represented by the BEHL Group's 40% interest in a joint venture with Siemens AG producing switching system. The BEHL Group is also engaged in several technology-related projects such as setting up a venture capital fund which has invested in 38 start-up high-technology companies in Greater China and the United States of America, and forming a joint venture company based in Beijing, the PRC with a focus on investing in domestic start-up high-technology companies. The aforesaid high-technology companies in which the BEHL Group has invested include those engaged in e-commerce, Internet-related businesses and telecommunications.

As stated in the "Letter from the Board" contained in the Circular, the audited net profit attributable to shareholders of the BEHL Group for the three years ended 31st December, 1999 and the unaudited net profit attributable to shareholders of the BEHL Group for the six months ended 30th June, 2000 were HK$811,208,000, HK$474,460,000, HK$485,030,000 and HK$260,953,000 respectively. As at 31st December, 1999, the audited consolidated net asset value of the BEHL Group stood at approximately HK$6,169 million. In addition, the ultimate controlling shareholder of the BEHL Group is Beijing Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability and wholly owned by the Beijing Municipal Government. Beijing Holdings Limited is acting as the primary trading and commercial vehicle for the Beijing Municipal Government in Hong Kong. Supported by the unique and close relationship with the Beijing Municipal Government, the BEHL Group is well positioned to effectively access information in relation to economic developments in Beijing and to take advantage of investment opportunities therein.

GDL is a company incorporated in the British Virgin Islands and is an indirect wholly-owned subsidiary of HWL. HWL is a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange. HWL and its subsidiaries are principally engaged in ports and related services, telecommunications and e-commerce, property development, hotel, retail, manufacturing, energy, infrastructure, finance and investments.

INC Funds, a company incorporated in the Cayman Islands in April 1996, with fund size of US$35 million (equivalent to approximately HK$272 million) is managed by WI Harper Group which is a high-technology venture capital firm based in San Francisco, the United States of America. WI Harper Group focuses particularly on investment opportunities in the high-technology sector in the Greater China region (including Hong Kong, China and Taiwan) and Silicon Valley in the United States of America. INC Funds focuses on investment opportunities in information technology and bio-technology sectors in North America, Asia Pacific and Europe.

Each of GDL and INC Funds is independent of and not connected or acting in concert with the Company, BEHL or IFTL, the directors, chief executive or substantial shareholders of the Company, BEHL or IFTL, any of their respective subsidiaries or associates.

*2. Reasons for the Subscriptions and future intentions in respect of the Group*

The audited net loss attributable to the Shareholders was approximately HK$50,190,000 for the year ended 31st December, 1999 and the unaudited net loss attributable to the Shareholders for the six months ended 30th June, 2000 was approximately HK$11,500,000. The audited consolidated net asset value of the Group as at 31st December, 1999 was approximately HK$47,800,000. The Group also had interest-bearing borrowings of approximately HK$157,700,000 and HK$169,500,000 as at 31st December, 1999 and 30th June, 2000 respectively. Given such operating results and level of borrowings of the Company, the Directors consider that there is funding pressure on the Company.

In addition, we note from the audited consolidated balance sheet of the Group as at 31st December, 1999 and the unaudited consolidated balance sheet of the Group as at 31st October, 2000 that net current liabilities of the Group stood at HK$53,751,000 and HK$67,230,000 respectively. We consider that, without any new funding being raised by the Company, there will be uncertainty as to the liquidity and debt servicing ability of the Group. However, based on the unaudited consolidated management accounts of the Group for the ten months ended 31st October, 2000 and the letters of BNP Paribas Peregrine (the financial adviser to the Company) and Ernst & Young (the auditors of the Company) as set out in Appendix II to the Circular, we are not aware of any significant uncertainty in the unaudited consolidated management accounts of the Group for the ten months ended 31st October, 2000.

With the existing level of borrowings of the Company, the Directors consider that it would be difficult for the Company to raise further debt financing. Apart from being a viable alternative to ease the Company's funding pressure, the Subscriptions will also increase the capital base of the Company and provide a solid financial foundation for the Group to continue the development of its existing business (other than the trading and manufacturing business of woollen and worsted products) and invest in other businesses, including businesses in the information technology and telecommunications sectors. We concur with the view of the Directors that the Subscriptions will not only improve the Group's financial position but is also important to the Group's future business development.

As set out in the "Letter from the Board" contained in the Circular, upon the Subscription Completion, BEHL, through IFTL, will become the controlling shareholder of the Company. The Directors and BEHL intend to maintain the listing of the Shares on the Stock Exchange. The purpose of implementing the Corporate Investor Subscriptions and the Placing is to enlarge the shareholder base of the Company and to maintain sufficient Shares in public hands to satisfy the minimum public float requirement of 25% as stipulated in the Listing Rules. The Corporate Investor Subscriptions and the Placing are expected to result in the public holding approximately 25.39% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions.

It is the intention of BEHL that the Group will continue its existing businesses of property investment and restaurant operations and will continue to employ the employees of the Group. In addition, BEHL, together with the continuous support from the Beijing Municipal Government, plans to develop the Company as its major flagship for investment in the information technology and telecommunications sectors. BEHL may or may not inject its investments in the information technology and telecommunications sectors into the Group. However, the Company will only invest in projects that are in the interest of the Shareholders as a whole and beneficial to the Group. Any future injection of assets by BEHL into the Group will be subject to the provisions of the Listing Rules. It is the intention of BEHL that the business of BEHL will not compete with that of the Group. In the event that any new business to be developed by the Group will result in competition between the Group and BEHL, the Company will disclose such matter in full, where appropriate.

It is also the intention of BEHL that the Group will diversify its business to include those in the information technology and telecommunications sectors, in particular, network infrastructure facilities, network construction, network system integration, Internet support related services as well as smart card development. It is aimed that the Group will become the leading network infrastructure facilities constructor, play an important role in the long-term development plan of electronic transactions and provide first-class network connection services in Beijing, the PRC.

There are currently five Directors (including two independent non-executive Directors) on the Board. As set out in the "Letter from the Board" contained in the Circular, it is intended that, immediately after the Subscription Completion, all existing Directors will remain on the Board. In order to ensure a smooth transition and maintain management consistency, it is also intended that there will be no material change in the existing senior management and employees of the Company. Depending on future business development, IFTL may nominate additional suitable candidates to the Board with relevant information technology, telecommunications or professional corporate finance experience.

Given the lack-lustre prospects of the Group's existing businesses, we are of the view that it is understandable for the Group to consider diversifying into the information technology and telecommunications sectors. While information technology and telecommunications businesses may be regarded by the market as having more growth potential than the existing businesses of the Group, it should be noted that there are inherent risks associated with the information technology and telecommunications sectors such as competition, the intensive capital requirement, the feasibility of the investment projects and the uncertainty as to the timing of the return on capital. The Group has yet to prepare a detailed business plan with respect to investments in these sectors following the Subscription Completion. Nevertheless, given the well-established business networks and strong financial backings of BEHL as well as the extensive experience of BEHL in investment in the information technology and telecommunications sectors as detailed under the section headed "Background of and information on the Subscriptions, the BEHL Group and the Corporate Investors" above, together with the improved financial position of the Group after the Subscription Completion, we concur with the Directors' view that the Subscriptions will enable the Group to better explore various business opportunities in the future in the information technology and telecommunication sectors following its diversification from the existing lines of business.

*3. Issue Price*

The Issue Price per New Share of HK$1.00 was determined after arm's length negotiations between the parties involved taking into account, among other things, the following factors:

- the significant increment in the prices and trading volume of the Shares after the publication of the Clarification Announcement. The closing price per Share increased from HK$1.19 on 6th December, 2000 to HK$1.50 on the Last Trading Day, representing an increase of approximately 26.05%;

- the respective average closing prices per Share for the 10, 30 and 60 days period up to and including the Last Trading Day which were approximately HK$1.50, HK$1.34 and HK$1.12 respectively;

- the audited consolidated net asset value per Share of approximately HK$0.56 as at 31st December, 1999; and

- the audited net loss attributable to the Shareholders for the year ended 31st December, 1999 of approximately HK$50.19 million.

The Directors believe that the Issue Price is fair and reasonable so far as the Shareholders are concerned.

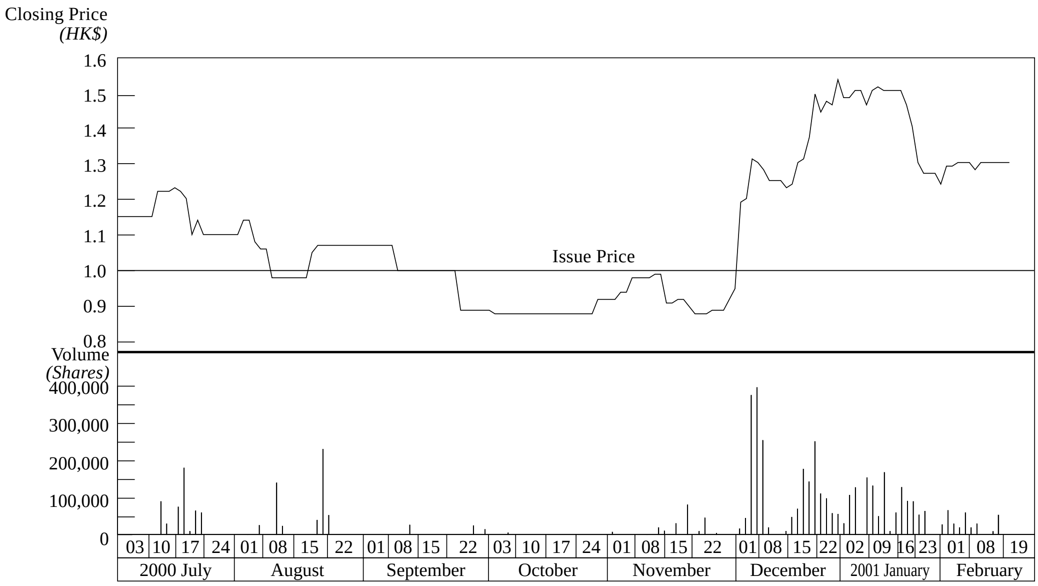
Set out below are the highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period from July 2000, which is the calendar month of the date six months prior to the Last Trading Day, up to and including the Latest Practicable Date, and the trading volume of the Shares for the same period.

| | **Price Range** | **Average daily trading volume** | **As a percentage of total issued Shares*** |
|---|---|---|---|
| | *(HK$)* | *(Number of Shares)* | *%* |
| **2000** | | | |
| July | 1.10–1.23 | 24,304 | 0.0283 |
| August | 0.98–1.14 | 22,348 | 0.0261 |
| September | 0.89–1.07 | 3,360 | 0.0039 |
| October | 0.88–0.89 | 300 | 0.0003 |
| November | 0.88–0.99 | 9,818 | 0.0114 |
| December | 0.89–1.49 | 112,057 | 0.1307 |
| **2001** | | | |
| January | 1.27–1.53 | 74,506 | 0.0869 |
| February (up to the Latest Practicable Date) | 1.24–1.30 | 24,154 | 0.0282 |

*Source:* the Stock Exchange

* *The percentage is calculated based on 85,758,750 Shares in issue as at the date of the Announcement.*

The following chart illustrates the Share price and trading volume movements of the Shares during the six months prior to the Last Trading Day and up to the Latest Practicable Date:




*Source:* Infocast

The Issue Price represents:

- a discount of approximately 33.33% to the closing price of HK$1.50 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 33.33% to the average closing price of approximately HK$1.50 per Share as quoted on the Stock Exchange over the 10 trading days up to and including the Last Trading Day;
- a discount of approximately 25.37% to the average closing price of approximately HK$1.34 per Share as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Day;
- a discount of approximately 10.71% to the average closing price of approximately HK$1.12 per Share as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Day;
- a discount of approximately 23.08% to the closing price of HK$1.30 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 78.57% over the audited consolidated net asset value per Share of approximately HK$0.56 as at 31st December, 1999;
- a premium of approximately 122.22% over the pro forma unaudited adjusted consolidated net tangible assets per Share prior to the issue of New Shares pursuant to the Subscriptions and the Disposals of approximately HK$0.45; and
- a premium of approximately 21.95% over the pro forma unaudited adjusted consolidated net tangible assets per Share subsequent to the issue of New Shares pursuant to the Subscriptions of approximately HK$0.82.

We note that the closing prices of the Shares were within the range of HK$0.88 to HK$1.53 during the six months leading up to and including the Last Trading Day. We further note that it was stated in the Clarification Announcement that an investor (of which one of the Directors is also a director) may subscribe for new Shares and there may be a change in control of the Company. On 6th December, 2000, being the last trading day immediately before the publication of the Clarification Announcement on 7th December, 2000, the closing price of the Shares recorded a sharp increase of approximately 25.3% from HK$0.95 to HK$1.19. In line with the surge in Share price, the trading volume of the Shares also increased significantly on the last trading day before publication of the Clarification Announcement. Subsequent to the publication of the Clarification Announcement on 7th December, 2000, the closing price of the Shares continued to move upward and reached a high of HK$1.50 per Share on 16th January, 2001, being the Last Trading Day. During the same period, turnover remained active when compared with that prior to 1st December, 2000.

We note from the annual report of the Company that the Group has been loss-making since the year ended 31st December, 1996. The Group recorded audited net loss attributable to the Shareholders of approximately HK$26.29 million, approximately HK$13.97 million, approximately HK$34.45 million and approximately HK$50.19 million for the four years ended 31st December, 1999 and unaudited net loss attributable to the Shareholders of approximately HK$11.52 million and approximately HK$18.99 million for the six months ended 30th June, 2000 and the ten months ended 31st October, 2000 respectively. Should the Subscriptions not proceed and given the historical financial and business performance of the Group, it is uncertain as to whether the current level of Share price and trading volume could be sustained.

In view of the historical price performance and the trading volume of the Shares during the period from 1st July, 2000 up to 5th December, 2000 (being the last trading day prior to the date of the Clarification Announcement) and the historical financial and business performance of the Group, together with the fact that no significant change of the fundamentals of the Company was noted, we consider that the surge in the price and the trading volume of the Shares during the period from 6th December, 2000 up to and including the Last Trading Day (which contained 27 trading days) was probably attributable to market speculation on the possible change in control of the Company and, accordingly, may not be representative of the usual price performance and the trading volume of the Shares.

Taking into particular consideration that the Issue Price represents:

- a premium of approximately 5.26% over the closing price of HK$0.95 per Share on 5th December, 2000, being the last trading day prior to the date of the Clarification Announcement;

- a discount of approximately 10.71% to the average closing price of approximately HK$1.12 per Share over the 60 trading days up to and including the Last Trading Day;

- a premium of approximately 78.57% over the audited consolidated net asset value per Share of approximately HK$0.56 as at 31st December, 1999;

- a premium of approximately 122.22% over the pro forma unaudited adjusted consolidated net tangible assets per Share prior to the issue of New Shares pursuant to the Subscriptions and the Disposals of approximately HK$0.45; and

- a premium of approximately 21.95% over the pro forma unaudited adjusted consolidated net tangible assets per Share subsequent to the issue of New Shares pursuant to the Subscriptions of approximately HK$0.82,

we consider that the amount of the Issue Price is fair and reasonable so far as the interests of the Independent Shareholders are concerned.

*4. Effects of the Subscriptions*

The effects of the Subscriptions are as follows:

(a) Dilutive effect on existing Shareholders

The issue of 218,000,000 New Shares pursuant to the Subscriptions will have a significant and immediate dilutive effect on the shareholdings of existing Shareholders in the Company. The shareholding interests of the existing public Shareholders in the Company will be diluted from approximately 31.65% to approximately 8.93% immediately after the Subscription Completion. The table below sets out the Company's shareholding structure immediately before and after the Subscription Completion:

| | **Immediately before the Subscription Completion** *(Note 1)* | | **Immediately after the Subscription Completion** *(Note 1)* | |
|---|---|---|---|---|
| | *Shares* | *%* | *Shares* | *%* |
| IFTL | – | – | 168,000,000 | *55.31* |
| GDL *(Note 2)* | – | – | 10,000,000 | *3.29* |
| INC Funds *(Note 2)* | – | – | 10,000,000 | *3.29* |
| IHL | 58,618,368 | *68.35* | 58,618,368 | *19.30* |
| Placees *(Note 2)* | – | – | 30,000,000 | *9.88* |
| Other shareholders *(Note 2)* | 27,140,382 | *31.65* | 27,140,382 | *8.93* |
| Total | 85,758,750 | | 303,758,750 | |

*Notes:*

1. The figures assume that other than the New Shares, no new Shares will be issued or repurchased by the Company after the date of the Circular and up to the date of the Subscription Completion.

2. Upon the Subscription Completion, the Shares held by these shareholders are considered as part of the public float.

Although the dilutive effect brought about by the Subscriptions is substantial, we consider that such significant dilution should be balanced against the benefits of the Subscriptions to the Company including (i) the injection of net proceeds of approximately HK$237 million into the Group upon completion of the Subscriptions and the Disposals; (ii) the improvement of the Group's financial position following the Subscription Completion; and (iii) the diversification of the Group's business to explore various business opportunities in the information technology and telecommunications sectors in the future.

(b) Financial effects on the Group

It is intended that not more than half of the net proceeds from the Subscriptions and the Disposals (amounting to approximately HK$118 million) will be used to repay part of the Group's aggregate outstanding borrowings of approximately HK$197 million as at 31st December, 2000, comprising secured bank loans and overdrafts of approximately HK$67 million; an unsecured bank loan of approximately HK$23 million; an unsecured loan from a related company of approximately HK$75 million; the amounts payable by annual instalments for the acquisition of a subsidiary in 1995 of HK$12 million; an amount due to the immediate holding company of approximately HK$4 million; and an amount due to a related company of approximately HK$16 million. This will in turn reduce the interest expenses of the Group by an estimated amount of up to approximately HK$9 million on an annual basis following the Subscription Completion, based on our review of the Company's proposed repayment schedule and the interest rates being charged on the relevant bank loans and other borrowings. The remaining net proceeds from the Subscriptions and the Disposals will be used as working capital principally for investment or business development in the information technology and telecommunications sectors through various means including, but not limited to, internal development, investments, joint ventures, share swaps, co-operative agreements and/or strategic alliances. However, no detailed or specific plans for such investment or business development are currently available and the impact arising therefrom on the Group's earnings cannot be assessed at this stage.

As a result of the Subscriptions, the net asset value of the Group will be increased by approximately HK$211 million. On the basis set out in paragraph VI of Appendix I to the Circular, the pro forma unaudited adjusted consolidated net tangible assets of the Group subsequent to the issue of New Shares pursuant to the Subscriptions will be approximately HK$250 million, equivalent to approximately HK$0.82 per Share (based on 303,758,750 Shares in issue immediately after the Subscriptions). This represents a significant improvement by approximately 82% over the pro forma unaudited adjusted consolidated net tangible assets of the Group prior to the issue of New Shares pursuant to the Subscriptions and the Disposals of approximately HK$38 million, which was equivalent to approximately HK$0.45 per Share (based on 85,758,750 Shares in issue immediately before the Subscriptions).

The audited net loss attributable to the Shareholders amounted to approximately HK$50,190,000 for the year ended 31st December, 1999, representing a loss per Share of approximately HK$0.585. As a result of the Subscriptions, the loss per Share will be reduced to approximately HK$0.165, based on the audited net loss attributable to the Shareholders of approximately HK$50,190,000 for the year ended 31st December, 1999 and the 303,758,750 Shares in issue immediately after the Subscriptions.

**Recommendation on the Subscriptions**

Despite the significant dilutive effect on the shareholding interests of the Shareholders, we consider that such effect is acceptable and the terms of the Subscriptions are fair and reasonable, taking into account in particular (a) the business opportunities expected to be available to the Group through the diversification of the existing businesses of the Group into information technology and telecommunications sectors; (b) the plan of BEHL, together with the continuous support from the Beijing Municipal Government, to develop the Company as its major flagship for investment in the information technology and telecommunications sectors and the intention of BEHL that the Company will diversify its business to include those in the information technology and telecommunications sectors; (c) the Issue Price being fair and reasonable so far as the interests of the Independent Shareholders are concerned; (d) the improvement of the Group's financial position following Subscription Completion; and (e) the positive financial effects of the Subscriptions on the net assets per Share as well as the loss per Share and on the earnings of the Group due to the reduction in the Group's interest expenses after repayment of part of the bank loans and other borrowings out of the net proceeds from the Subscriptions and the Disposals.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscriptions by way of a poll.

**THE WHITEWASH WAIVER**

**Principal factors considered**

In assessing the terms of the Whitewash Waiver, we have taken into account the following principal factors:

1. *Background of the Whitewash Waiver*

Upon Subscription Completion, BEHL (through IFTL) and its concert parties (if any) will be interested in approximately 55.31% of the issued share capital of the Company as enlarged by the New Shares to be issued under the Subscriptions. Under Rule 26 of the Takeovers Code, upon the BEHL Subscription Completion, IFTL and the parties acting in concert with it will be obliged to make an unconditional general offer to acquire all the Shares other than those already owned or agreed to be acquired by IFTL or its concert parties. In this regard, we understand that IFTL and BEHL have made an application to the Executive for the Whitewash Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code. The Executive has agreed to grant the Whitewash Waiver on the condition that the Whitewash Waiver is approved by the Independent Shareholders on a vote taken by way of a poll at the EGM. The Executive has indicated that any purchase of the Shares by IFTL, BEHL or any person acting in concert with either of them during the 6 month period prior to the date of the Announcement (but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the BEHL Subscription) and up to the date of the EGM will be deemed as a disqualifying transaction under paragraph 3 of Schedule VI of the Takeovers Code. If any such disqualifying transaction shall occur prior to the EGM, the Whitewash Waiver will be invalidated.

*2. Condition precedent to Subscription Completion*

Independent Shareholders should note that if the Whitewash Waiver is not granted, the condition precedent to Subscription Completion in respect thereof as stipulated in the Subscription Agreements cannot be fulfilled, and such condition will not be waived by IFTL. Accordingly, the Subscriptions will not proceed and the Subscription Agreements will lapse. In such case, the Group will not be able to capitalise on the benefits expected to be brought about by the Subscriptions as mentioned above, but will have to seek other alternatives to ease its funding pressure. As mentioned above, given the existing level of borrowings of the Company, the Directors consider that it would be difficult for the Company to raise further debt financing. Under such circumstances and in view of the historical financial and business performance of the Group, the future prospects of the Group would remain uncertain.

*3. Dilutive effect on shareholdings of Independent Shareholders*

Independent Shareholders should also note that if the Whitewash Waiver is granted and the Subscription Agreements are completed, the issue of the New Shares pursuant to the Subscriptions will have a significant and immediate dilutive effect on the shareholdings of existing Shareholders in the Company. The shareholding interests of the existing public Shareholders in the Company will be diluted from approximately 31.65% to approximately 8.93% immediately after the Subscription Completion.

Although the dilutive effect brought about by the Subscriptions is substantial, we consider that such significant dilution should be balanced against the benefits of the Subscriptions to the Company including (i) the injection of net proceeds of approximately HK$237 million into the Group upon completion of the Subscriptions and the Disposals; (ii) the improvement of the Group's financial position following the Subscription Completion; and (iii) the diversification of the Group's business to explore various business opportunities in the information technology and telecommunications sectors in the future.

**Recommendation on the Whitewash Waiver**

Having considered the factors above, in particular, the granting of the Whitewash Waiver is a condition precedent to the Subscription Completion, we consider that the granting of the Whitewash Waiver will not be prejudicial to the interests of the Independent Shareholders and is fair and reasonable in the circumstances. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Whitewash Waiver by way of a poll.

For those Independent Shareholders who have decided to vote against the Subscriptions, it would also be logical for them to vote against the Whitewash Waiver, which is one of the conditions precedent to the Subscription Completion.

**THE DISPOSALS**

**Principal factors considered**

In assessing the terms of the Disposals, we have taken into consideration the following principal factors:

*1. Background of the Disposal Agreements*

The Company entered into the following agreements on 18th January, 2001:

(i) the HK Disposal Agreement with GMG and IHL, pursuant to which the Company conditionally agreed to sell to GMG the Sale Shares, the Shareholder's Loan and the Worsted Products for an aggregate cash consideration of HK$6,021,227; and

(ii) the JV Disposal Agreement with GMG and IHL, pursuant to which the Company conditionally agreed to sell to GMG the Company's entire 50% interest in Beijing Jin Yang for a cash consideration of HK$19,618,897.

The Disposals constitute special deals under Rule 25 of the Takeovers Code and hence require consent from the Executive. An application has been made to the Executive for the Special Deal Consent. The Executive has indicated that the Special Deal Consent will be granted, subject to the Independent Financial Advisers stating in their opinion that the terms of the Disposal Agreements are fair and reasonable and the Independent Shareholders passing the relevant resolution to approve the Disposal Agreements on a vote taken by way of a poll.

As set out in the "Letter from the Board" contained in the Circular, the Disposals also constitute major and connected transactions for the Company under the Listing Rules. Accordingly, the Disposals may only proceed if Independent Shareholders' approval is obtained at the EGM.

*2. Reasons for the Disposals*

The Group is principally engaged in the trading and manufacturing of woollen and worsted products, property investment and restaurant operations.

Sino Textile, a company incorporated in Hong Kong in 1995, is owned as to 70% by the Company and as to 30% by Ms. Wong Ching Yi, Irene who (other than being a substantial shareholder of Sino Textile) is independent of, and not connected or acting in concert with, the Company, IFTL or BEHL, the directors, chief executives or substantial shareholders of the Company (including IHL), IFTL or BEHL, and any of their subsidiaries or any of their respective associates or concert parties (if any). Sino Textile is engaged in the trading of woollen and worsted products. The audited net profit/(loss) of Sino Textile for the two years ended 31st December, 1999 were approximately HK$(264,000) and approximately HK$203,000 respectively. The audited net liabilities of Sino Textile as at 31st December, 1999 attributable to the Group was approximately HK$738,000. Based on the management accounts of the Group, the net loss of Sino Textile for the ten months ended 31st October, 2000 was approximately HK$56,000 and the net liabilities of Sino Textile as at 31st October, 2000 was approximately HK$1,110,000. As at 31st October, 2000, the Shareholder's Loan due from Sino Textile to the Company amounted to HK$1,518,208 and was unsecured, non-interest bearing and without any fixed repayment terms.

While the results of Sino Textile had improved for the year ended 31st December, 1999 over the previous year, we were advised by the Directors that such improvement was due to an isolated sales order from a customer in Norway for the amount of HK$1,177,664, with gross profit of HK$511,283 being made in the first half of 1999. However, no further sales to such customer occurred subsequent to 1999.

In addition, Beijing Jin Yang is a sino-foreign joint venture established in the PRC in 1996 with a term of 20 years. Beijing Jin Yang is owned as to 50% by the Company and as to the remaining 50% by the PRC Party, who is independent of, and not connected or acting in concert with, the Company, IFTL or BEHL, the directors, chief executives or substantial shareholders of the Company, IFTL or BEHL, and any of their subsidiaries or any of their respective associates or concert parties (if any). The registered capital of Beijing Jin Yang is US$11,180,000 (approximately HK$86,869,000). It is engaged in the manufacturing of woollen and worsted products. The net loss of Beijing Jin Yang attributable to the Group, which had been made in the audited accounts of the Group, prepared in accordance with the HK GAAP, for each of the two years ended 31st December, 1999 were approximately RMB1,030,000 (approximately HK$958,106) and RMB14,843,000 (approximately HK$13,807,285) respectively. The Group's share of net assets of Beijing Jin Yang, which had been accounted for in the audited accounts of the Group prepared in accordance with the HK GAAP as at 31st December, 1999, was approximately RMB25,947,000 (approximately HK$24,136,791). In addition, based on the management accounts of the Group, the net loss of Beijing Jin Yang attributable to the Group for the ten months ended 31st October, 2000 was approximately RMB4,858,000 (approximately HK$4,519,107) and the Group's share of net asset value of Beijing Jin Yang as at 31st October, 2000 was approximately RMB21,090,000 (approximately HK$19,618,897).

Given that the business of trading and manufacturing of woollen and worsted products of the Group has suffered losses during the past few years and that, as advised by the Directors, strong competition is anticipated to persist in the woollen and worsted products market, we concur with the Directors' view that it will take time and demand resources for the Group to improve such line of business going forward. It is the intention of the Group to discontinue the business of trading and manufacturing of woollen and worsted products by way of the Disposals. The Directors believe that the Disposals represent a good opportunity for the Company to realise its investments in the trading and manufacturing operations of the woollen and worsted products and allow the Group to obtain additional capital to expand and diversify the Group's business into other sectors. The Directors consider that the terms of the Disposal Agreements are fair and reasonable and are in the interest of the Group.

As mentioned above, not more than half of the net proceeds from the Disposals and the Subscriptions will be applied to repay part of the Group's aggregate outstanding borrowings totalling approximately HK$197 million as at 31st December, 2000, with the remaining proceeds being used as working capital principally to invest and develop the business of the Group to include those in the information technology and telecommunications sectors, in particular, network infrastructure facilities, network construction, network system integration, Internet support related services as well as smart card development.

*3. Bases of considerations*

(a) The HK Disposal

The consideration for the HK Disposal amounting to HK$6,021,227, was agreed between the Company and GMG based on normal commercial terms, with reference to the aggregate of (i) the aggregate par value of the 70 shares of Sino Textile of HK$70, (ii) the amount of HK$1,518,208 of the Shareholder's Loan as at 31st October, 2000 and (iii) the book value of Worsted Products of HK$4,502,949 as at 31st October, 2000.

Taking into account:

(i) the net liabilities of approximately HK$1,110,000 of Sino Textile as at 31st October, 2000;

(ii) the poor performance of Sino Textile over the last two financial years ended 31st December, 1999 and for the ten months ended 31st October, 2000;

(iii) the intense competition in the woollen and worsted products market;

(iv) the assignment of the Shareholder's Loan of HK$1,518,208 from the Company to GMG on a dollar-for-dollar basis;

(v) the disposal of the Worsted Products by the Company to GMG at the aggregate book value of HK$4,502,949 as at 31st October, 2000; and

(vi) the fact that the aggregate cash consideration of the HK Disposal represents a premium of approximately HK$777,000 over the aggregate value of the Company's attributable interest in the net liabilities of Sino Textile as at 31st October, 2000, the amount of Shareholder's Loan of HK$1,518,208 and the book value of the Worsted Products of HK$4,502,949 as at 31st October, 2000,

we concur with the Directors' view that the aggregate consideration for the HK Disposal is fair and reasonable so far as the Independent Shareholders are concerned.

(b) The JV Disposal

The cash consideration for the JV Disposal is HK$19,618,897, which was determined by reference to the 50% share of net asset value of Beijing Jin Yang attributable to the Group of HK$19,618,897 based on its unaudited management accounts as at 31st October, 2000.

Taking into account:

(i) the consecutive loss-making performance of Beijing Jin Yang over the last two financial years ended 31st December, 1999 and for the ten months ended 31st October, 2000;

(ii) the intense competition in the woollen and worsted products market; and

(iii) the fact that the cash consideration of the JV Disposal is equivalent to the Company's 50% share of the net asset value of Beijing Jin Yang as at 31st October, 2000,

we concur with the Directors' view that the consideration for the JV Disposal is fair and reasonable so far as the Independent Shareholders are concerned.

*4. Financial impact of the Disposals on the Group*

(a) The HK Disposal

As a result of the HK Disposal, the Group will recognise a profit of approximately HK$777,000 (which is estimated based on the aggregate consideration for the HK Disposal less the aggregate book value of the Company's 70% attributable interests in the net liabilities of Sino Textile as at 31st October, 2000, the Shareholder's Loan and the book value of the Worsted Products as at 31st October, 2000) for the year ending 31st December, 2001, which will in turn increase the net asset value of the Group by the same amount.

(b) The JV Disposal

As mentioned above, since the cash consideration of the JV Disposal is equivalent to the Company's 50% share of the net asset value of Beijing Jin Yang as at 31st October, 2000, the Group will not recognise any profit or loss as a result of the JV Disposal.

Based on the above and taking into account (i) the fact that the Group will be able to discharge the financial burden attributable to the non-profitable woollen and worsted products business following the Disposals; (ii) the reduction in interest expenses after repayment of part of the bank loans and other borrowings by the Group out of the proceeds from the Disposals and the Subscriptions; and (iii) the injection of new working capital partly out of the proceeds from the Disposals and the Subscriptions to facilitate the Group's business expansion and diversification, we consider that the Disposals will have a positive effect on both the net assets and future earnings of the Group.

**Recommendation on the Disposals**

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Disposal Agreements by way of a poll.

**OVERALL CONCLUSION**

Based on the above principal factors and reasons we have considered, we are of the view that (a) the terms of the Subscriptions and the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned; and (b) the granting of the Whitewash Waiver will not be prejudicial to the interests of the Independent Shareholders and is fair and reasonable in the circumstances. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscriptions, the Whitewash Waiver and the Disposal Agreements by way of a poll.

Yours faithfully,

| | |
|---|---|
| For and on behalf of | For and on behalf of |
| **Asia Financial Capital Limited** | **Horwath Capital Asia Limited** |
| **Alan Fung** | **Francis K Tung** |
| *Deputy Managing Director* | *Managing Director* |

## I. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Subscription Completion are set out as follows:

| | | HK$ |
|---|---|---|
| *Authorised:* | | |
| 160,000,000 | Shares as at the Latest Practicable Date | 160,000,000 |
| 840,000,000 | Shares to be created pursuant to the increase in authorised share capital | 840,000,000 |
| 1,000,000,000 | | 1,000,000,000 |
| *Issued and fully paid:* | | |
| 85,758,750 | Shares as at the Latest Practicable Date | 85,758,750 |
| 168,000,000 | New Shares to be issued upon BEHL Subscription Completion | 168,000,000 |
| 10,000,000 | New Shares to be issued upon GDL Subscription Completion | 10,000,000 |
| 10,000,000 | New Shares to be issued upon INC Funds Subscription Completion | 10,000,000 |
| 30,000,000 | New Shares to be issued upon Placing Completion | 30,000,000 |
| 303,758,750 | | 303,758,750 |

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange.

Subject to the Subscription Completion, the New Shares to be issued to IFTL, GDL, INC Funds and the placees will rank pari passu in all respect with the Shares in issue on the date of completion of each respective Subscription Agreement, including ranking for payment of any dividend declared on or after the date of completion of each respective Subscription Agreement.

Subject to passing of the relevant resolution at the EGM, a general unconditional mandate will be given to the Directors to allot, issue and deal with shares in the capital of the Company with an aggregate nominal value not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company in issue immediately after the issue of the New Shares pursuant to the Subscriptions.

## II. SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

| | **1999** | **1998** | **1997** | **1996** | **1995** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| RESULTS | | | | | |
| Turnover | 127,785 | 117,716 | 113,580 | 102,077 | 100,925 |
| Profit/(loss) before tax | (54,064) | (36,423) | (15,372) | (29,196) | 7,330 |
| Tax | (291) | (1,659) | (2,318) | (1,994) | (1,793) |
| Profit/(loss) before minority interests | (54,355) | (38,082) | (17,690) | (31,190) | 5,537 |
| Minority interests | 4,165 | 3,632 | 3,723 | 4,898 | 941 |
| Net profit/(loss) from ordinary activities | (50,190) | (34,450) | (13,967) | (26,292) | 6,478 |
| Extraordinary item | – | – | – | – | – |
| Net profit/(loss) attributable to shareholders | (50,190) | (34,450) | (13,967) | (26,292) | 6,478 |
| Dividends | – | – | – | – | 4,716 |
| Earnings/(Loss) per share (Cents) | (58.5) | (40.2) | (16.3) | (30.7) | 7.6 |
| Dividend per share (Cents) | – | – | – | – | 5.5 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 258,039 | 308,813 | 338,057 | 359,575 | 343,560 |
| Total liabilities | (216,330) | (212,895) | (198,275) | (184,349) | (124,204) |
| Minority interests | 6,091 | 1,823 | (175) | (9,373) | (17,763) |
| Net assets | 47,800 | 97,741 | 139,607 | 165,853 | 201,593 |

## III. SUMMARY OF FINANCIAL RESULTS FOR THE TWO YEARS ENDED 31ST DECEMBER, 1999

The following financial information has been extracted from the audited consolidated profit and loss accounts of the Group for each of the two years ended 31st December, 1998 and 1999, the audited consolidated statement of recognised gains and losses of the Group for each of the two years ended 31st December, 1998 and 1999, the audited consolidated balance sheets of the Group as at 31st December, 1998 and 1999, the consolidated cash flow statements of the Group for each of the two years ended 31st December, 1998 and 1999 and the balance sheets of the Company as at 31st December, 1998 and 1999:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*Year ended 31st December,*

| | *Notes* | **1999** *HK$'000* | **1998** *HK$'000* |
|---|---|---|---|
| TURNOVER | *5* | 127,785 | 117,716 |
| Cost of sales | | (74,764) | (68,491) |
| Gross profit | | 53,021 | 49,225 |
| Other revenue | | 6,749 | 3,825 |
| Selling and distribution costs | | (41,947) | (36,262) |
| Administrative and other operating expenses | | (17,133) | (17,326) |
| Amortisation and write off of goodwill | | (10,328) | (1,851) |
| Revaluation deficit of investment properties | | (14,830) | (18,244) |
| LOSS FROM OPERATING ACTIVITIES | *6* | (24,468) | (20,633) |
| Finance costs | *7* | (14,456) | (15,803) |
| Provision for diminution in value of a jointly-controlled entity | | (3,180) | – |
| Share of profits less losses of associates | | (726) | 1,283 |
| Share of profits less losses of jointly-controlled entities | | (11,234) | (1,270) |
| LOSS BEFORE TAX | | (54,064) | (36,423) |
| Tax | *10* | (291) | (1,659) |
| LOSS BEFORE MINORITY INTERESTS | | (54,355) | (38,082) |
| Minority interests | | 4,165 | 3,632 |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | *11* | (50,190) | (34,450) |
| Retained profits/(accumulated losses) at beginning of year | | (24,893) | 8,635 |
| | | (75,083) | (25,815) |
| Transfer from asset revaluation reserve | 27 | 922 | 922 |
| ACCUMULATED LOSSES AT END OF YEAR | | (74,161) | (24,893) |
| LOSS PER SHARE (CENTS) – BASIC | *12* | (58.5) | (40.2) |
| Retained by: | | | |
| Company and subsidiaries | | (65,590) | (28,071) |
| Associates | | 4,369 | 4,884 |
| Jointly-controlled entities | | (12,940) | (1,706) |
| | | (74,161) | (24,893) |

**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES**

*Year ended 31st December,*

| | *Notes* | **1999** *HK$'000* | **1998** *HK$'000* |
|---|---|---|---|
| Exchange differences on translation of the financial statements of foreign entities | *27* | 249 | 44 |
| Deficit on revaluation of investment properties | *27* | – | (7,460) |
| Net gains/(losses) not recognised in the profit and loss account | | 249 | (7,416) |
| Net loss for the year attributable to shareholders | | (50,190) | (34,450) |
| Total recognised gains and losses | | (49,941) | (41,866) |

**CONSOLIDATED BALANCE SHEET**
*31st December,*

| | *Notes* | **1999** *HK$'000* | **1998** *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | *13* | 73,045 | 79,178 |
| Investments properties | *14* | 46,909 | 60,575 |
| Goodwill | *15* | – | 10,328 |
| Interests in associates | *17* | 57,324 | 55,397 |
| Interests in jointly-controlled entities | *18* | 25,612 | 40,026 |
| Deferred pre-operating expenses | *19* | – | 889 |
| | | 202,890 | 246,393 |
| CURRENT ASSETS | | | |
| Inventories | *20* | 22,139 | 22,841 |
| Properties held for sale | *21* | 13,916 | 14,016 |
| Trade receivables | | 4,124 | 2,400 |
| Other receivables, prepayments and deposits | | 5,740 | 6,970 |
| Amount due from a jointly-controlled entity | *22* | – | 1,342 |
| Cash and bank balances | | 9,230 | 14,851 |
| | | 55,149 | 62,420 |
| CURRENT LIABILITIES | | | |
| Trade payables | | 6,652 | 3,331 |
| Other payables and accruals | | 18,749 | 20,232 |
| Bank and other borrowings | *23* | 63,575 | 76,054 |
| Amount due to immediate holding company | *24* | 1,048 | 720 |
| Amounts due to related companies | *24* | 10,146 | 3,200 |
| Amounts due to jointly-controlled entities | *24* | 3,600 | 743 |
| Tax payable | | 5,130 | 5,014 |
| | | 108,900 | 109,294 |
| NET CURRENT LIABILITIES | | (53,751) | (46,874) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 149,139 | 199,519 |

| | Notes | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Bank and other borrowings | *23* | (107,430) | (103,601) |
| | | 41,709 | 95,918 |
| Minority interests | | 6,091 | 1,823 |
| | | 47,800 | 97,741 |
| CAPITAL AND RESERVES | | | |
| Issued capital | *26* | 85,759 | 85,759 |
| Reserves | *27* | 36,202 | 36,875 |
| Accumulated losses | | (74,161) | (24,893) |
| | | 47,800 | 97,741 |

**CONSOLIDATED CASH FLOW STATEMENT**

*Year ended 31st December,*

| | Notes | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | *28(a)* | 8,974 | 2,542 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 3,048 | 3,740 |
| Interest paid | | (8,331) | (12,896) |
| Dividends paid to minority shareholders | | (78) | (116) |
| Net cash outflow from returns on investments and servicing of finance | | (5,361) | (9,272) |
| TAXATION | | | |
| Hong Kong profits tax paid | | (61) | (533) |
| Overseas taxes paid | | (325) | (920) |
| Taxes paid | | (386) | (1,453) |
| INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | | (3,351) | (1,076) |
| Proceeds from disposal of investment properties | | 5,372 | – |
| Proceeds from disposal of fixed assets | | – | 38 |
| Investment in a jointly-controlled entity | | – | (2,238) |
| Increase in amounts due from associates | | (2,591) | (4,711) |
| Net cash outflow from investing activities | | (570) | (7,987) |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES | | 2,657 | (16,170) |
| FINANCING ACTIVITIES | *28(b)* | | |
| Repayment of bank loans | | (10,514) | (32,865) |
| New other borrowings | | – | 90,000 |
| Repayment of other borrowings | | (720) | (37,000) |
| Advance from minority interests | | – | 640 |
| Net cash inflow/(outflow) from financing activities | | (11,234) | 20,775 |

| | **1999** | **1998** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (8,577) | 4,605 |
| Cash and cash equivalents at beginning of year | (5,877) | (10,547) |
| Effect of foreign exchange rate changes, net | 372 | 65 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | (14,082) | (5,877) |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 9,230 | 14,851 |
| Bank overdrafts | (18,321) | (12,864) |
| Trust receipt loans repayable within three months from the date of the advance | (4,991) | (7,864) |
| | (14,082) | (5,877) |

**BALANCE SHEET**

*31st December,*

| | Notes | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 13 | 39,356 | 40,520 |
| Interests in subsidiaries | 16 | 36,371 | 62,167 |
| Interests in associates | 17 | 51,249 | 51,411 |
| Interests in jointly-controlled entities | 18 | 29,651 | 45,449 |
| | | 156,627 | 199,547 |
| CURRENT ASSETS | | | |
| Inventories | 20 | 8,977 | 13,307 |
| Trade receivables | | 1,104 | 1,032 |
| Other receivables, prepayments and deposits | | 336 | 378 |
| Amount due from a jointly-controlled entity | 22 | – | 1,342 |
| Cash and bank balances | | 200 | 193 |
| | | 10,617 | 16,252 |
| CURRENT LIABILITIES | | | |
| Trade payables | | 239 | 137 |
| Other payables and accruals | | 2,118 | 2,375 |
| Bank and other borrowings | 23 | 24,398 | 22,919 |
| Amount due to immediate holding company | 24 | 1,048 | 720 |
| Amount due to a related company | 24 | 9,146 | 3,200 |
| Amounts due to jointly-controlled entities | 24 | 3,600 | 743 |
| | | 40,549 | 30,094 |
| NET CURRENT LIABILITIES | | (29,932) | (13,842) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 126,695 | 185,705 |
| NON-CURRENT LIABILITIES | | | |
| Bank and other borrowings | 23 | (77,100) | (86,176) |
| | | 49,595 | 99,529 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 26 | 85,759 | 85,759 |
| Reserves | 27 | 37,331 | 38,253 |
| Accumulated losses | | (73,495) | (24,483) |
| | | 49,595 | 99,529 |

## NOTES TO FINANCIAL STATEMENTS

*31st December, 1999*

### 1. FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared under the going concern basis because the Company has obtained an irrevocable credit facility of US$7 million (approximately HK$54.6 million) from an affiliated company of the Company's ultimate shareholder on 18th May, 2000 for one year, and the directors are of the opinion that other measures currently being undertaken by the directors can enable the Group to meet its future working capital and financing requirements.

### 2. CORPORATE INFORMATION

The principal activities of the Group are the trading of woollen and worsted products, property investment and holding, and restaurant operations.

In the opinion of the directors, the ultimate holding company is Beijing International Trust and Investment Corporation, which is registered in the People's Republic of China.

### 3. IMPACT OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following accounting standards have been adopted for the first time in the preparation of the current year's consolidated financial statements, together with a summary of their major effects:

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 10: Accounting for Investments in Associates

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The format of the profit and loss account and the balance sheets, as set out on pages 60, 62 to 63 and 66 respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 61. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items are no longer specifically referred to as "exceptional".

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10, and accordingly has had no major impact for these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

The adoption of SSAPs 1, 2, and 10 have had no effect on the previously reported net loss attributable to shareholders, loss per share, and net assets of the Group.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 1999. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

**Associates**

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the directors.

**Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than temporary in nature, deemed necessary by the directors.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term investments and are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

When the Group contributes or sells assets to a jointly-controlled entity and the assets are retained by the jointly-controlled entity, the Group recognises only that portion of the gain which is attributable to the interests of the other venturers and investors. The Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets, or a decline, other than temporary, in the carrying amount of long term assets.

When the Group purchases assets from a jointly-controlled entity, the Group does not recognise its share of the profits of the jointly-controlled entity from the transaction until it resells the assets to an independent party. When a loss results from the transaction, the Group recognises the full amount of the loss when the contribution or sale provides evidence of a reduction in the net realisable value of current assets, or a decline, other than temporary, in the carrying amount of long term assets.

**Goodwill**

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is amortised on a straight-line basis over its useful life. Where, in the opinion of the directors, there is a permanent diminution in value of goodwill, the unamortised balance is written down to its estimated recoverable amount. On disposal of subsidiaries, the relevant portion of attributable goodwill remains unamortised is charged to the profit and loss account and included in the calculation of the gain or loss on disposal.

**Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice No. 17 “Property, plant and equipment” have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts, based on revaluations which were reflected in financial statements to periods ended before 30th September, 1995, have not been revalued to fair value by class at the balance sheet date. It is the directors’ intention not to revalue these assets in the future.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land | Over the lease terms |
| Buildings | 4% |
| Leasehold improvements | Over the lease terms or 10 years, whichever is shorter |
| Furniture, fixtures and equipment | 10%-18% |
| Motor vehicles | 18%-20% |

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm’s length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**Deferred pre-operating expenses**

Deferred pre-operating expenses represent expenses incurred prior to the commencement of commercial operations and in prior year were amortised, using the straight-line basis, over a period of five years from the date of commencement of commercial operations. Starting from the current year, pre-operating expenses will be recognised as an expense in the period in which they are incurred.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Properties held for sale**

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**Cash equivalents**

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

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

**Pension scheme**

Certain subsidiaries have participated in the compulsory pension scheme operated by the respective governments for their staff. These subsidiaries are required to contribute a certain percentage of their covered payroll to the scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to pay the ongoing required contributions under the scheme. Contributions under the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**Revenue recognition**

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

(a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) receipts from restaurant operations, upon the delivery of food and beverages to customers;

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(e) on the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**5. TURNOVER AND REVENUE**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; proceeds from the sale of properties held for sale; gross rental income; and receipts from restaurant operations. Revenue from the following activities has been included in turnover:

| | Group | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Sale of woollen and worsted products | 23,022 | 35,777 |
| Sale of properties held for sale | 350 | – |
| Sale of dried seafood | 1,842 | 1,586 |
| Receipts from restaurant operations | 94,843 | 69,526 |
| Rental income | 7,728 | 10,827 |
| Turnover | 127,785 | 117,716 |

**6. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after charging:

| | Group | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | 69,578 | 63,974 |
| Cost of properties held for sale | 100 | – |
| Depreciation | 6,154 | 7,929 |
| Amortisation and write off of goodwill | 10,328 | 1,851 |
| Amortisation of deferred pre-operating expenses | 889 | 2,047 |
| Revaluation deficit of investment properties | 14,830 | 18,244 |
| Rent of land and buildings under operating leases | 6,856 | 7,291 |
| Foreign exchange losses, net | 767 | 784 |
| Loss on disposal of fixed assets | 103 | – |
| Auditors' remuneration | 783 | 759 |
| Staff costs (including directors' remuneration – *note 8*): | | |
| Wages and salaries | 22,953 | 19,008 |
| Pension contributions | 482 | 486 |
| | 23,435 | 19,494 |

| | Group 1999 | Group 1998 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| and after crediting: | | |
| Gross rental income | 7,728 | 10,827 |
| *Less:* Outgoings | (2,900) | (2,528) |
| Net rental income | 4,828 | 8,299 |
| Interest income | 3,048 | 3,740 |
| Gain on disposal of fixed assets | – | 38 |
| Gain on disposal of investment properties | 3,309 | – |
| Reversal of write-down of inventories included in the cost of inventories sold | – | 515 |

**7. FINANCE COSTS**

| | Group 1999 | Group 1998 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | 14,456 | 15,803 |

**8. DIRECTORS' REMUNERATION**

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

| | Group 1999 | Group 1998 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fees | – | – |
| Salaries, allowances and benefits in kind | 2,184 | 2,184 |
| Performance related bonuses | 273 | 273 |
| | 2,457 | 2,457 |

There were no emoluments payable to the independent non-executive directors during the year (1998: Nil).

The remuneration of the directors fell within the following band:

| | Number of directors 1999 | Number of directors 1998 |
|---|---|---|
| Nil to HK$1,000,000 | 5 | 5 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

**9. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year included two (1998: two) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining three (1998: three) non-director, highest paid employees are as follows:

| | Group | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefits in kind | 2,070 | 2,034 |
| Performance related bonuses | 284 | 278 |
| | 2,354 | 2,312 |

The remuneration of the non-director, highest paid employees fell within the following band:

| | Number of employees | |
|---|---|---|
| | **1999** | **1998** |
| Nil to HK$1,000,000 | 3 | 3 |

**10. TAX**

| | Group | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Group: | | |
| Hong Kong | 36 | 253 |
| Elsewhere | 599 | 914 |
| Prior year's under/(over)provision | (133) | 37 |
| Share of tax attributable to associates | (211) | 455 |
| Tax charge for the year | 291 | 1,659 |

Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$49,934,000 (1998: HK$68,175,000).

**12. LOSS PER SHARE**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$50,190,000 (1998: HK$34,450,000) and the 85,758,750 (1998: 85,758,750) shares of the Company in issue during the year.

The diluted loss per share for the years ended 31st December, 1999 and 1998 has not been calculated as no diluting events existed during these years.

## 13. FIXED ASSETS

**Group**

| | Leasehold land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost or valuation: | | | | | |
| At beginning of year | 68,359 | 32,954 | 7,998 | 2,514 | 111,825 |
| Additions | – | 1,327 | 1,506 | 518 | 3,351 |
| Disposals | – | – | (929) | – | (929) |
| Transfer to investment properties | (3,564) | – | – | – | (3,564) |
| At 31st December, 1999 | 64,795 | 34,281 | 8,575 | 3,032 | 110,683 |
| At cost | 21,295 | 34,281 | 8,575 | 3,032 | 67,183 |
| At valuation | 43,500 | – | – | – | 43,500 |
| | 64,795 | 34,281 | 8,575 | 3,032 | 110,683 |
| Accumulated depreciation: | | | | | |
| At beginning of year | 5,247 | 19,122 | 6,183 | 2,095 | 32,647 |
| Provided during the year | 1,547 | 3,425 | 968 | 214 | 6,154 |
| Disposals | – | – | (826) | – | (826) |
| Transfer to investment properties | (337) | – | – | – | (337) |
| At 31st December, 1999 | 6,457 | 22,547 | 6,325 | 2,309 | 37,638 |
| Net book value: | | | | | |
| At 31st December, 1999 | 58,338 | 11,734 | 2,250 | 723 | 73,045 |
| At 31st December, 1998 | 63,112 | 13,832 | 1,815 | 419 | 79,178 |

**Company**

| | Leasehold land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost or valuation: | | | | | |
| At beginning of year | 43,500 | 366 | 784 | 1,709 | 46,359 |
| Additions | – | – | 29 | – | 29 |
| Disposals | – | – | (133) | – | (133) |
| At 31st December, 1999 | 43,500 | 366 | 680 | 1,709 | 46,255 |
| At cost | – | 366 | 680 | 1,709 | 2,755 |
| At valuation | 43,500 | – | – | – | 43,500 |
| | 43,500 | 366 | 680 | 1,709 | 46,255 |
| Accumulated depreciation: | | | | | |
| At beginning of year | 3,419 | 328 | 388 | 1,704 | 5,839 |
| Provided during the year | 1,026 | 38 | 73 | 5 | 1,142 |
| Disposals | – | – | (82) | – | (82) |
| At 31st December, 1999 | 4,445 | 366 | 379 | 1,709 | 6,899 |
| Net book value: | | | | | |
| At 31st December, 1999 | 39,055 | – | 301 | – | 39,356 |
| At 31st December, 1998 | 40,081 | 38 | 396 | 5 | 40,520 |

An analysis of the leasehold land and buildings, which are held under medium term leases, at the balance sheet date is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Situated in Hong Kong: | | | | |
| At 1994 valuation | 43,500 | 43,500 | 43,500 | 43,500 |
| At cost | 2,313 | 5,877 | – | – |
| Situated in Singapore: | | | | |
| At cost | 18,982 | 18,982 | – | – |
| | 64,795 | 68,359 | 43,500 | 43,500 |

A revaluation of certain of the leasehold land and buildings situated in Hong Kong was carried out by Richard Ellis Limited, independent professional valuers, on an open market value, existing use basis as at 31st December, 1994. Had the land and buildings not been revalued, their net book value would have been as follows:

| | Group and Company | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Cost | 4,339 | 4,339 |
| Accumulated depreciation | (756) | (652) |
| Net book value at 31st December | 3,583 | 3,687 |

**14. INVESTMENT PROPERTIES**

| | Group | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| At beginning of year | 60,575 | 85,185 |
| Transfer from fixed assets | 3,227 | – |
| Disposals | (2,063) | – |
| Revaluation deficit | (14,830) | (24,610) |
| At 31st December, at valuation | 46,909 | 60,575 |

An analysis of the investment properties at the balance sheet date is as follows:

| | Group | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Situated in the People's Republic of China: | | |
| Hong Kong | 12,490 | 18,060 |
| Elsewhere | 34,419 | 42,515 |
| | 46,909 | 60,575 |

At 31st December, 1999, the investment properties in Hong Kong and the People's Republic of China were revalued on an open market value, existing use basis, by Brooke International and CB Richard Ellis Ltd, independent professional valuers, respectively.

Details of the investment properties, which are held under medium term leases, are as follows:

| **Location** | **Use** |
|---|---|
| Part of the second floor and the whole of the third floor, A No. 1 Jian Guo Men Wai Avenue, Chao Yang District, Beijing, the People's Republic of China | Office building |
| Units 1103, 1701, 1704, 1705, 1903 and 1905, Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong | Industrial |

**15. GOODWILL**

| | **Group** | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Cost: | | |
| At beginning of year and at 31st December | 16,685 | 16,685 |
| Amortisation: | | |
| At beginning of year | 6,357 | 4,506 |
| Provided during the year | 1,851 | 1,851 |
| Write off during the year | 8,477 | – |
| At 31st December | 16,685 | 6,357 |
| Net book value: | | |
| At 31st December | – | 10,328 |

**16. INTERESTS IN SUBSIDIARIES**

| | **Company** | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 3,947 | 3,947 |
| Amounts due from subsidiaries | 93,627 | 105,965 |
| | 97,574 | 109,912 |
| Provisions for diminutions in values | (3,836) | (3,836) |
| Provision against amounts due from subsidiaries | (57,367) | (43,909) |
| | 36,371 | 62,167 |

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

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/registered share capital | Percentage of equity attributable to the Company 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| Ah Yat Abalone Forum Restaurant Holdings Pte Ltd* | Singapore | S$250,000 | 45.9@ | 45.9@ | Restaurant operations |
| Beijing Ah Yat Abalone Restaurant Co., Ltd.* | The People's Republic of China | US$1,400,000 | 48.5@ | 48.5@ | Restaurant operations |
| Beijing Development Properties (Hong Kong) Limited | Hong Kong | HK$100,000 | 100 | 100 | Property investment |
| Beijing Development Property Investment and Management Co., Ltd.* | The People's Republic of China | US$4,000,000 | 85.5 | 85.5 | Property investment |
| Beijing Singapore Investments Pte Ltd | Singapore | S$800,000 | 90 | 90 | Property and investment holding |
| H.K. Forewell Investments Limited | Hong Kong | HK$10,000 | 51 | 51 | Investment holding and trading of dried seafood |
| Hong Kong Fortune International Limited | Hong Kong# | HK$10,000 | 51 | 51 | Restaurant operations |
| Lord King Investment Limited* | Hong Kong# | HK$1,000,000 | 51 | 51 | Restaurant operations |
| Sino Textile Enterprises Limited | Hong Kong | HK$100 | 70 | 70 | Garment trading |

@ – *These entities are subsidiaries of non-wholly owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of control over the entities.*

# – *These subsidiaries are incorporated in Hong Kong and operate elsewhere within the People's Republic of China.*

* – *Indirectly held by the Company.*

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

**17. INTERESTS IN ASSOCIATES**

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | – | – | –* | –* |
| Share of net assets | 5,925 | 6,589 | – | – |
| Amounts due from associates | 16,614 | 14,023 | 16,464 | 16,626 |
| Loan to an associate | 34,785 | 34,785 | 34,785 | 34,785 |
| | 57,324 | 55,397 | 51,249 | 51,411 |

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

The loan to an associate is unsecured, bears interest at Hong Kong prime rate per annum and has no fixed terms of repayment.

* – *The costs of unlisted shares held by the Company at 31st December, 1999 and 1998 amounted to HK$50.*

Particulars of the associates are as follows:

| **Name** | **Business structure** | **Place of incorporation and operations** | **Percentage of ownership interest attributable to the Group 1999** | **1998** | **Principal activities** |
|---|---|---|---|---|---|
| Linkcross Investments Limited | Corporate | Hong Kong | 50 | 50 | Investment holding |
| Overseas Union Investments Limited | Corporate | Hong Kong | 50* | 50* | Investment holding |

* – *Indirectly held by the Company.*

**18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES**

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | – | – | 45,449 | 45,449 |
| Share of net assets | 28,792 | 40,026 | – | – |
| Provisions for diminutions in values | (3,180) | – | (15,798) | – |
| | 25,612 | 40,026 | 29,651 | 45,449 |

Details of the principal jointly-controlled entity are as follows:

| Name | Business structure | Place of registration and operations | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Beijing Jin Yang Worsted Co., Ltd. | Corporate | The People's Republic of China | 50 | 50 | 50 | Manufacture of worsted products |

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

**19. DEFERRED PRE-OPERATING EXPENSES**

| | Group 1999 *HK$'000* | Group 1998 *HK$'000* |
|---|---|---|
| At beginning of year | 889 | 2,936 |
| Current year amortisation | (889) | (2,047) |
| At 31st December | – | 889 |

No adjustments have been made in respect of the change of accounting policy due to the adoption of the new Interpretation 9 "Accounting for Pre-operating Costs" issued by the Hong Kong Society of Accountants as the amounts involved were not material.

**20. INVENTORIES**

| | Group 1999 *HK$'000* | Group 1998 *HK$'000* | Company 1999 *HK$'000* | Company 1998 *HK$'000* |
|---|---|---|---|---|
| Raw materials | 12,933 | 9,251 | – | – |
| Finished goods | 9,206 | 13,590 | 8,977 | 13,307 |
| | 22,139 | 22,841 | 8,977 | 13,307 |

The carrying amount of inventories carried at net realisable value included in the above is HK$8,977,000 (1998: HK$4,076,000).

**21. PROPERTIES HELD FOR SALE**

The details of the Group's properties held for sale are as follows:

| Location | Group interest | Existing use | Gross floor area |
|---|---|---|---|
| Units 101-103, 107, 1303, 1501, 1503, 2001, 2101 and 2103-2104; private carparks nos. 4, 6-8, 10-13, 16, 19-21, 24 and 28 on the upper ground floor; lorry carparks nos. 1-8, 12-14, 16-25, 27, 29 and container space no.30 on the ground floor, roof and external wall, Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong | 100% | Factory and carpark rental | 49,890 sq.ft. (excluding roof and carparks) |

## 22. AMOUNT DUE FROM A JOINTLY-CONTROLLED ENTITY

The amount due from a jointly-controlled entity was unsecured, interest-free and had no fixed terms of repayment.

## 23. BANK AND OTHER BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank loans: | | | | |
| Secured | 41,227 | 51,741 | 12,608 | 22,566 |
| Unsecured | 23,190 | 23,190 | – | – |
| Other borrowings, unsecured | 83,276 | 83,996 | 70,000 | 70,000 |
| Bank overdrafts, secured | 18,321 | 12,864 | 13,899 | 8,665 |
| Trust receipt loans, secured | 4,991 | 7,864 | 4,991 | 7,864 |
| | 171,005 | 179,655 | 101,498 | 109,095 |
| *Less:* Portion classified as current liabilities | (63,575) | (76,054) | (24,398) | (22,919) |
| Long term portion | 107,430 | 103,601 | 77,100 | 86,176 |
| Bank loans repayable: | | | | |
| Within one year or on demand | 60,296 | 74,055 | 24,398 | 22,919 |
| In the second year | 22,056 | 7,602 | 6,039 | 7,045 |
| In the third to fifth years, inclusive | 2,732 | 10,801 | 1,061 | 9,131 |
| Beyond five years | 2,645 | 3,201 | – | – |
| | 87,729 | 95,659 | 31,498 | 39,095 |
| Other borrowings repayable: | | | | |
| Within one year | 3,279 | 1,999 | – | – |
| In the second year | 71,999 | 71,999 | 70,000 | 70,000 |
| In the third to fifth years, inclusive | 5,999 | 5,999 | – | – |
| Beyond five years | 1,999 | 3,999 | – | – |
| | 83,276 | 83,996 | 70,000 | 70,000 |
| | 171,005 | 179,655 | 101,498 | 109,095 |

(a) Certain of the Group's bank borrowings are secured by:

(i) Mortgages over the Group's investment properties which had an aggregate carrying value at the balance sheet date of approximately HK$46,909,000 (1998: HK$60,575,000).

(ii) Mortgages over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK$19,283,000 (1998: HK$23,031,000).

(iii) Mortgages over certain of the Group's properties held for sale which had an aggregate carrying value at the balance sheet date of approximately HK$12,715,000 (1998: HK$12,815,000).

(b) Part of the Group's and all of the Company's other borrowings of HK$70,000,000 (1998: HK$70,000,000), which are due to an affiliated company of the Company's ultimate shareholders, bear interest at the Hong Kong prime rate per annum and are repayable by May 2001.

(c) The remainder of the Group's other borrowings of HK$13,276,000 (1998: HK$13,996,000) represent the amounts payable for the acquisition of a subsidiary in 1995. The amounts are interest-free and repayable by annual instalments up to the year 2005.

**24. AMOUNTS DUE TO THE IMMEDIATE HOLDING COMPANY/RELATED COMPANIES/JOINTLY-CONTROLLED ENTITIES**

The amounts due to the immediate holding company, related companies and jointly-controlled entities, are unsecured, interest-free and have no fixed terms of repayment.

**25. DEFERRED TAX**

The amount of the deferred tax asset not recognised in the financial statements is set out below:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Tax losses | 9,826 | 7,907 | 9,239 | 7,591 |

The revaluation of the Group's leasehold land and buildings in Hong Kong does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

There are no significant potential deferred tax liabilities for which provision has not been made.

**26. SHARE CAPITAL**

| | **Company** | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'000* | *HK$'000* |
| *Authorised:* | | |
| 160,000,000 ordinary shares of HK$1 each | 160,000 | 160,000 |
| *Issued and fully paid:* | | |
| 85,758,750 ordinary shares of HK$1 each | 85,759 | 85,759 |

**27. RESERVES**

| | Investment property revaluation reserve HK$'000 | Asset revaluation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 1st January, 1998 | 7,460 | 39,175 | (1,422) | 45,213 |
| Exchange realignments | – | – | 44 | 44 |
| Deficit on revaluation | (7,460) | – | – | (7,460) |
| Transfer to accumulated losses | – | (922) | – | (922) |
| At 31st December, 1998 and beginning of year | – | 38,253 | (1,378) | 36,875 |
| Exchange realignments | – | – | 249 | 249 |
| Transfer to accumulated losses | – | (922) | – | (922) |
| At 31st December, 1999 | – | 37,331 | (1,129) | 36,202 |
| Reserves retained by: | | | | |
| Company and subsidiaries | – | 37,331 | (2,678) | 34,653 |
| Associates | – | – | 1,549 | 1,549 |
| 31st December, 1999 | – | 37,331 | (1,129) | 36,202 |
| Company and subsidiaries | – | 38,253 | (3,076) | 35,177 |
| Associates | – | – | 1,698 | 1,698 |
| 31st December, 1998 | – | 38,253 | (1,378) | 36,875 |
| **Company** | | | | |
| At 1st January, 1998 | – | 39,175 | – | 39,175 |
| Transfer to accumulated losses | – | (922) | – | (922) |
| At 31st December, 1998 and beginning of year | – | 38,253 | – | 38,253 |
| Transfer to accumulated losses | – | (922) | – | (922) |
| At 31st December, 1999 | – | 37,331 | – | 37,331 |

## 28. NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of loss from operating activities to net cash inflow from operating activities

| | 1999 | 1998 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss from operating activities | (24,468) | (20,633) |
| Interest income | (3,048) | (3,740) |
| Depreciation | 6,154 | 7,929 |
| Amortisation and write off of goodwill | 10,328 | 1,851 |
| Revaluation deficit of investment properties | 14,830 | 18,244 |
| Amortisation of deferred pre-operating expenses | 889 | 2,047 |
| Loss/(gain) on disposal of fixed assets | 103 | (38) |
| Gain on disposal of investment properties | (3,309) | – |
| Decrease/(increase) in trade receivables | (1,724) | 1,970 |
| Decrease in inventories | 702 | 2,451 |
| Decrease/(increase) in other receivables, prepayments and deposits | 1,230 | (1,039) |
| Decrease in properties held for sale | 100 | – |
| Decrease/(increase) in amount due from a jointly-controlled entity | 1,342 | (1,342) |
| Increase/(decrease) in trade payables | 3,321 | (1,465) |
| Decrease in other payables and accruals | (1,661) | (2,023) |
| Increase/(decrease) in amount due to immediate holding company | 328 | (1,980) |
| Increase in amounts due to related companies | 1,000 | – |
| Increase in amounts due to jointly-controlled entities | 2,857 | 310 |
| Net cash inflow from operating activities | 8,974 | 2,542 |

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

| | Bank and other borrowings | Minority interests |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Balance at 1st January, 1998 | 138,792 | 175 |
| Cash inflow from financing activities, net | 20,135 | 640 |
| Dividends | – | (116) |
| Share of losses | – | (3,632) |
| Share of exchange fluctuation reserve | – | 17 |
| Share of investment property revaluation reserve | – | 1,093 |
| Balance at 31st December, 1998 and beginning of year | 158,927 | (1,823) |
| Cash outflow from financing activities, net | (11,234) | – |
| Dividends | – | (78) |
| Share of losses | – | (4,165) |
| Share of exchange fluctuation reserve | – | (25) |
| Balance at 31st December, 1999 | 147,693 | (6,091) |

**29. COMMITMENTS**

At 31st December, 1999, the Group and the Company had commitments under non-cancellable operating leases to make payments in the following year in respect of land and buildings as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Leases expiring: | | | | |
| Within one year | 311 | 432 | – | 311 |
| In the second to fifth years,inclusive | 4,976 | 3,211 | 923 | – |
| After five years | – | 2,779 | – | – |
| | 5,287 | 6,422 | 923 | 311 |
| Leases expiring after five years: | | | | |
| Share of a jointly-controlled entity | 1,110 | 1,110 | 1,110 | 1,110 |
| | 6,397 | 7,532 | 2,033 | 1,421 |

**30. CONTINGENT LIABILITIES**

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | **1998** | **1999** | **1998** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Guarantees given to banks in connection with facilities granted to a subsidiary | – | – | 56,449 | 57,006 |
| Share of guarantees given by a jointly-controlled entity to a bank in connection with loans granted to an affiliated company of a joint venture partner | – | 13,953 | – | 13,953 |
| | – | 13,953 | 56,449 | 70,959 |

At 31st December, 1999, the guarantees given to banks in connection with facilities granted to a subsidiary by the Company were utilised to the extent of approximately HK$56,231,000 (1998: HK$56,564,000).

**31. RELATED PARTY TRANSACTIONS**

(a) The Group and the Company had the following material transactions with related parties during the year:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **1999** | **1998** | **1999** | **1998** |
| | *Notes* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Sales of raw materials to a company in which certain directors of the Company have beneficial interests | *(i)* | 1,842 | 1,586 | – | – |
| Processing charges paid to a jointly-controlled entity | *(ii)* | – | 1,422 | – | 1,422 |
| Purchases of finished goods from jointly-controlled entities | *(i)* | 14,510 | 18,312 | 14,510 | 18,312 |
| Sales of raw materials to a jointly-controlled entity | *(i)* | 1,550 | 2,437 | 1,550 | 2,437 |
| Interest expense on loans from affiliated companies of the Company's ultimate shareholder | *(iii)* | 5,946 | 4,106 | 5,946 | 4,106 |
| Interest expense on a loan from a company in which certain directors of the Company have beneficial interests | *(iii)* | – | 309 | – | 309 |
| Interest income from an associate | *(iv)* | 2,955 | 3,456 | 2,955 | 3,456 |

*Notes:*

(i) The directors consider that the sales of raw materials to and the purchases of finished goods from related parties were priced at the estimated purchased or manufactured costs of goods sold.

(ii) The processing charges were calculated at the standard direct costs incurred by the jointly-controlled entity.

(iii) The interest expenses on loans from related parties were charged at Hong Kong prime rate per annum (1998: various rates up to 0.5% over Hong Kong prime rate per annum). Details of the outstanding loans at 31st December, 1999 are disclosed in note 23.

(iv) The interest income from an associate relating to a loan granted, further details of which are disclosed in note 17.

(b) Details of the amounts due from/to jointly-controlled entities, the immediate holding company and related companies are included in notes 22 and 24.

**32. COMPARATIVE AMOUNTS**

As further explained in note 3, due to the adoption of new SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

**33. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 22nd May, 2000.

## IV. 2000 INTERIM RESULT

The following is a summary of the unaudited consolidated interim results of the Group for the six months ended 30th June, 2000 with comparative figures for the previous corresponding period as follows:

| | | Six months ended 30th June, | |
|---|---|---|---|
| | | **2000** | **1999** |
| | *Notes* | *HK$'000* | *HK$'000* |
| TURNOVER | *(1)* | 90,391 | 60,605 |
| Cost of sales | | (52,071) | (35,237) |
| Gross profit | | 38,320 | 25,368 |
| Other revenue | | 1,576 | 1,527 |
| Selling and distribution costs | | (27,540) | (18,489) |
| Administrative and other operating expenses | | (8,411) | (8,779) |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | | 3,945 | (373) |
| Finance costs | | (7,615) | (7,190) |
| Share of profits less losses of associates | | (1,215) | 229 |
| Share of profits less losses of jointly-controlled entities | | (3,417) | (3,807) |
| LOSS BEFORE TAX | | (8,302) | (11,141) |
| Tax | *(2)* | (1,114) | (227) |
| LOSS BEFORE MINORITY INTERESTS | | (9,416) | (11,368) |
| Minority interests | | (2,104) | (1,170) |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (11,520) | (12,538) |
| LOSS PER SHARE *(cents)* | | | |
| – Basic | *(3)* | (13.4) | (14.6) |

*Notes:*

**(1) Turnover**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, gross rental income, and receipts from restaurant operations. Revenue from the following activities has been included in turnover:

| | Six months ended 30th June, 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Sale of woollen and worsted products | 22,104 | 17,491 |
| Sale of dried seafood | 999 | 817 |
| Receipts from restaurant operations | 64,449 | 38,819 |
| Rental income | 2,839 | 3,478 |
| Turnover | 90,391 | 60,605 |

**(2) Tax**

| | Six months ended 30th June, 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Group: | | |
| Hong Kong | 79 | 21 |
| Elsewhere | 1,600 | 118 |
| Prior year's overprovision | (168) | – |
| | 1,511 | 139 |
| Share of tax attributable to associates | (397) | 88 |
| Tax charge for the period | 1,114 | 227 |

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**(3) Loss per share**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the six months ended 30th June, 2000 of HK$11,520,000 (1999: HK$12,538,000) and the 85,758,750 (1999: 85,758,750) shares of the Company in issue during the period.

The diluted loss per share for the six months ended 30th June, 2000 and 1999 has not been calculated as no diluting events existed during these periods.

## V. UNAUDITED CONSOLIDATED MANAGEMENT ACCOUNTS OF THE GROUP

The following unaudited consolidated management accounts of the Group for the ten months ended 31st October, 2000 have been prepared by the Directors for the purpose of this circular and are subject to adjustments upon audit and/or changes as a result of any subsequent events which may arise after the Latest Practicable Date.

The unaudited consolidated profit and loss account of the Group for the ten months ended 31st October, 2000 is as follows:

| | *HK$'000* |
|---|---|
| TURNOVER | 144,463 |
| Cost of sales | (81,439) |
| Gross profit | 63,024 |
| Other revenue | 3,731 |
| Selling and distribution costs | (46,431) |
| Administrative and other operating expenses | (13,405) |
| Revaluation surplus of investment properties | 209 |
| PROFIT FROM OPERATING ACTIVITIES | 7,128 |
| Finance costs | (13,188) |
| Share of profits less losses of associates | (3,719) |
| Share of profits less losses of jointly-controlled entities | (4,183) |
| LOSS BEFORE TAX | (13,962) |
| Tax | (1,370) |
| LOSS BEFORE MINORITY INTERESTS | (15,332) |
| Minority interests | (3,661) |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | (18,993) |

The unaudited consolidated balance sheet of the Group as at 31st October, 2000 is as follows:

| | *HK$'000* |
|---|---|
| NON-CURRENT ASSETS | |
| Fixed assets | 73,813 |
| Investment properties | 46,400 |
| Interests in associates | 68,075 |
| Interest in a jointly-controlled entity | 19,619 |
| | 207,907 |
| CURRENT ASSETS | 58,378 |
| CURRENT LIABILITIES | (125,608) |
| NET CURRENT LIABILITIES | (67,230) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 140,677 |
| NON-CURRENT LIABILITIES | |
| Bank and other borrowings due after one year | (116,362) |
| | 24,315 |
| Minority interests | 3,941 |
| | 28,256 |
| CAPITAL AND RESERVES | |
| Issued capital | 85,759 |
| Reserves | 34,883 |
| Accumulated losses | (92,386) |
| | 28,256 |

## VI. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is a summary of the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group based on the audited consolidated net tangible assets of the Group as at 31st December, 1999 and adjusted as follows:

| | *HK$'000* |
|---|---|
| Audited consolidated net tangible assets as at 31st December, 1999 | 47,800 |
| Unaudited consolidated loss attributable to shareholders for the ten months ended 31st October, 2000 | (18,993) |
| Surplus arising on valuation of the Group's properties set out in Appendix III | 10,163 |
| Unrealised exchange loss | (552) |
| Pro forma unaudited adjusted consolidated net tangible assets prior to the issue of New Shares pursuant to the Subscriptions and the Disposals | 38,418 |
| Estimated net proceeds from the issue of New Shares pursuant to the Subscriptions | 211,360 |
| Pro forma unaudited adjusted consolidated net tangible assets subsequent to the issue of New Shares pursuant to the Subscriptions | 249,778 |
| The Disposals | |
| (a) Pro forma net assets of Beijing Jin Yang attributable to the Group as at 31st October, 2000 | (19,619) |
| Pro forma net liabilities of Sino Textile attributable to the Group as at 31st October, 2000 | 777 |
| The Shareholder's Loan as at 31st October, 2000 | (1,518) |
| Net book value of the Worsted Products as at 31st October, 2000 | (4,503) |
| (b) Net proceeds from the Disposals | 25,640 |
| Pro forma unaudited adjusted consolidated net tangible assets subsequent to the issue of New Shares pursuant to the Subscriptions and the Disposals | 250,555 |
| Pro forma unaudited adjusted consolidated net tangible assets per Share prior to the issue of New Shares pursuant to the Subscriptions and the Disposals | HK$0.45 |
| Pro forma unaudited adjusted consolidated net tangible assets per Share subsequent to the issue of New Shares pursuant to the Subscriptions | HK$0.82 |
| Pro forma unaudited adjusted consolidated net tangible assets per Share subsequent to the issue of New Shares pursuant to the Subscriptions and the Disposals | HK$0.82 |

## VII. STATEMENT OF INDEBTEDNESS

As at the close of business on 31st December, 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate outstanding borrowings of approximately HK$197 million, comprising secured bank loans and overdrafts of approximately HK$67 million; an unsecured bank loan of approximately HK$23 million; an unsecured loan from a related company of approximately HK$75 million; the amounts payable by annual instalments for the acquisition of a subsidiary in 1995 of HK$12 million; an amount due to immediate holding company of approximately HK$4 million; and an amount due to a related company of approximately HK$16 million.

The secured bank borrowings were secured by certain of the Group's leasehold land and buildings, investment properties, properties held for sales and corporate guarantees given by the Company.

The Directors are not aware of any material change in the indebtedness and contingent liabilities of the Group since 1st January, 2001.

Save as aforesaid and apart from intra-group liabilities, no companies within the Group had outstanding at the close of business on 31st December, 2000 any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

## VIII. WORKING CAPITAL

The Directors are of the opinion that, based on the expected cash flows, and taking into consideration the expected net proceeds arising from the Subscriptions and the Disposals, and assuming that the bank facilities of the Group will not be withdrawn, the Group will have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

## IX. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st December, 1999, being the date of the latest published audited accounts of the Group.

*Set out below are the text of the letters received by the Directors from the auditors, Ernst & Young, and from BNP Paribas Peregrine in connection with the unaudited consolidated management accounts of the Group for the ten months ended 31st October, 2000.*

## (A) LETTER FROM ERNST & YOUNG

ERNST & YOUNG
安永會計師事務所

Certified Public Accountants
15/F Hutchison House
10 Harcourt Road
Central, Hong Kong

Phone: 852 2846 9888
852 2526 5371
Fax: 852 2868 4432
852 2845 9208

23rd February, 2001

The Directors
Beijing Development (Hong Kong) Limited
20th Floor
Hang Lung House
184-192 Queen's Road Central
Sheung Wan
Hong Kong

Dear Sirs,

We have reviewed the unaudited consolidated management accounts of Beijing Development (Hong Kong) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the ten months ended 31st October, 2000 (the "Unaudited Management Accounts") for which the directors of the Company are solely responsible. The Unaudited Management Accounts are set out in the section headed "Unaudited consolidated management accounts of the Group" in Appendix I "Financial information on the Group" to the circular dated 23rd February, 2001 of which this letter forms part.

Our review of the Unaudited Management Accounts was conducted in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants and consisted of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making inquiries of management. Our review was substantially less in scope than an audit performed in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants and, accordingly, we express no opinion as to whether the Unaudited Management Accounts give a true and fair view of the state of affairs of the Group as at 31st October, 2000 and of the results of the Group for the ten months then ended.

Based on our review:

- so far as the accounting policies and calculations are concerned, the Unaudited Management Accounts have been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group; and
- we are not aware of any material modifications that should be made to, nor any significant area of uncertainty in, the Unaudited Management Accounts as presented in the aforementioned circular.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

**(B) LETTER FROM THE FINANCIAL ADVISER**

# BNP PARIBAS PEREGRINE

23rd February, 2001

The Directors
Beijing Development (Hong Kong) Limited
20th Floor, Hang Lung House
184-192 Queen's Road Central
Sheung Wan
Hong Kong

Dear Sirs,

**Review of the unaudited consolidated management accounts of Beijing Development (Hong Kong) Limited and its subsidiaries for the ten months ended 31st October, 2000**

We refer to the unaudited consolidated management accounts of Beijing Development (Hong Kong) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the ten months ended 31st October, 2000 (the "Unaudited Management Accounts"), for which the directors of the Company are solely responsible, set out and contained in the circular issued by the Company dated 23rd February, 2001 of which this letter forms part.

We have discussed with you the accounting policies upon which the Unaudited Management Accounts have been prepared. We have also considered the letter dated 23rd February, 2001 addressed to you by Ernst & Young, the auditors of the Company relating to the accounting policies and calculations adopted in the preparation of the Unaudited Management Accounts.

On the basis of the accounting policies and calculations adopted in preparing the Unaudited Management Accounts and the review performed by Ernst & Young, we are satisfied that the Unaudited Management Accounts have been compiled after due and careful consideration and we are not aware of any significant area of uncertainty in the Unaudited Management Accounts.

Yours faithfully,
For and on behalf of
**BNP Paribas Peregrine Capital Limited**
**Tim Fu Ting Mei**
*Deputy Managing Director*

BNP PARIBAS
Equities

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地產代理（公司）牌照號碼
Estate Agent's Licence (Co.) No.C-004065

23rd February, 2001

The Directors
Beijing Development (Hong Kong) Limited
20th Floor
Hang Lung House
184-192 Queen's Road Central
Sheung Wan
Hong Kong

Dear Sirs,

We refer to your instructions for us to value the various property interests in Hong Kong, Singapore and the People's Republic of China ("PRC"), held by certain subsidiaries and associates of Beijing Development (Hong Kong) Limited (the "Company" and together the "Group") described in more detail in the attached valuation certificate. We have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31st October, 2000.

We have valued the property interests on the basis of open market value which we would define as intended to mean "the best price at which the sale of an interest in property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

a) a willing seller;

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

c) that the state of the market, levels of value and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

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

Our valuation has been made on the assumption that the owners sell the property interests on the open market without the benefits of a deferred terms contract, leaseback, management agreement or any similar arrangement which would serve to increase the value of the property interests.

We have valued the property interests by reference to comparable market transactions in the relevant locality or, where appropriate, on the basis of capitalisation of the rental income from the existing tenancies relating to the relevant properties as advised by the Group with allowances for outgoings and provision for reversionary income potential.

Properties in Group V are rented by the Group and are considered to have no commercial value due mainly to the prohibitions against assignment or sub-letting or, otherwise, due to the lack of substantial profit rents.

We have searched the properties in Hong Kong and Singapore at the relevant land registry but were not able to do so for the other properties in Beijing and Shanghai, i.e. Properties Nos. 4, 5 and 6. We have been provided with copies of title documents relating to these property interests and a legal opinion in connection with each of these property interests ("PRC Legal Opinion") prepared by Concord Law Firm, qualified lawyers in the PRC. According to the PRC Legal Opinion, the Group owns an interest in each of Properties Nos. 4, 5 and 6 wholly or partly but the interest in Property No. 5 is held by the Group as sub-lessee and the Group's title to Property No. 6 is pending the payment of outstanding land premium and infrastructure construction fee.

We have relied to a considerable extent on information given by you and have accepted advice given to us on matters such as title, tenancies, identification of the site boundaries, planning approvals, site and floor areas, time of completion, cost of development and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximate.

Whilst we have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries, we have not scrutinised the original documents to verify the correctness of the information or to ascertain subsequent amendments, if any, which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

In respect of the properties completed, our valuation has been made on the basis that the buildings have been completed in compliance with the relevant building regulations and local bye-laws. We have inspected the exterior of the buildings and certain parts of the interior. In the course of our inspection, we did not note any serious defects. However, we have not carried out any structural survey nor were any tests made on the services, therefore, we are not able to report whether the structures are free from any structural defects.

We have not carried out any land survey and we have of necessity assumed that the completed buildings have been erected within the title boundaries.

We have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. for the completed/proposed buildings. Our valuation has been prepared on the assumption that these aspects are satisfactory and does not make any allowance for contamination or pollution of the land, if any, which may have occurred as a result of past usage.

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

Our valuation is based on local currency, i.e. Hong Kong dollar ("HK$"), Renminbi ("RMB"), or Singapore dollar ("S$"). In the course of our valuation, it is also necessary to convert amounts in United States dollars ("US$") into RMB. We have based on the exchange rates prevailing at the date of valuation as follows:

| | | |
|---|---|---|
| RMB1 | = | HK$0.93 |
| S$1 | = | HK$4.49 |
| US$1 | = | RMB8.33 |

This letter and valuation certificate is prepared for the use of the party to whom it is addressed and no responsibility is accepted to any third party.

Neither the whole or any part of this letter and valuation certificate or any reference to it may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it may appear.

A summary of valuation and our valuation certificate is attached.

Yours faithfully
For and on behalf of
**CB Richard Ellis Limited**
**Albert C F Tong** RPS AHKIS ARICS
*Senior Director*
Valuation & Advisory Services
Greater China

*Note:* Mr. Albert C F Tong is a Registered Professional Surveyor (General Practice) in Hong Kong and has substantial experience in valuing properties in Hong Kong, the PRC and the Asia Pacific Region.

## SUMMARY OF VALUATION

| | Property | Capital value as at 31st October, 2000 in the existing state *(HK$)* | Percentage interest attributable to the Group | Capital value as at 31st October, 2000 attributable to the Group *(HK$)* |
|---|---|---|---|---|
| **Group I – Property interests held for occupation, investment or sale in Hong Kong** | | | | |
| 1. | Units 1,2, 3 and 7 on 1st floor, Unit 3 on 11th floor, Unit 3 on 13th floor, Units 1 and 3 on 15th floor, Units 1 and 4 on 17th floor, Units 1, 2 and 3 on 18th floor, Units 3 and 5 on 19th floor, Unit 1 on 20th floor, Units 1, 3 and 4 on 21st floor, Car parking spaces G1, G2, G3, G4, G5, G6, G7, G8, G12, G13, G14, G16, G17, G18, G19, G20, G21, G22, G23, G24, G25, G27, G29 and Container on ground floor, and Car parking spaces UG4, UG6, UG8, UG10, UG11, UG12, UG13, UG16, UG19, UG20, UG21, UG24 and UG28 on upper ground floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong | 49,100,000 | 100.0% | 49,100,000 |
| 2. | 3rd, 4th and 5th floors, Peninsula Factory Building, 250/254 Texaco Road, Tsuen Wan, New Territories, Hong Kong | 13,500,000 | 100.0% | 13,500,000 |
| | **Group I sub-total:** | **62,600,000** | | **62,600,000** |

| | Property | Capital value as at 31st October, 2000 in the existing state *(HK$)* | Percentage interest attributable to the Group | Capital value as at 31st October, 2000 attributable to the Group *(HK$)* |
|---|---|---|---|---|
| **Group II – Property interest held for occupation in Singapore** | | | | |
| 3. | No. 190 Clemenceau Avenue, #01-01 to 10, Singapore Shopping Centre, Singapore 239924 | 13,000,000 | 90.0% | 11,700,000 |
| | **Group II sub-total:** | **13,000,000** | | **11,700,000** |
| **Group III – Property interests held for investment in PRC** | | | | |
| 4. | Part of 2nd floor and the whole of 3rd floor, A No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC | 37,200,000 | 85.5% | 31,806,000 |
| 5. | Shanghai Harbour Business Center, No. 610 Dongdaming Road, Hongkou, Shanghai, PRC | 20,700,000 | 49.5% | 10,246,500 |
| | **Group III sub-total:** | **57,900,000** | | **42,052,500** |
| **Group IV – Property interest held for development in PRC** | | | | |
| 6. | Phases II and III, No. 8 Dongdaqiao Road, Chaoyang District, Beijing, PRC | 534,900,000 | 50.0% | 267,450,000 |
| | **Group IV sub-total:** | **534,900,000** | | **267,450,000** |
| | **Grand Total:** | **668,400,000** | | **383,802,500** |

| | Property | Capital value as at 31st October, 2000 in the existing state *(HK$)* | Percentage interest attributable to the Group | Capital value as at 31st October, 2000 attributable to the Group *(HK$)* |
|---|---|---|---|---|
| **Group V – Properties rented by the Group** | | | | |
| 7. | Room 3002 on 30th Floor, New York Life Tower, Windsor House, 311 Gloucester Road, Causeway Bay, Hong Kong | | | No commercial value |
| 8. | 20th Floor, Hang Lung House, 184-192 Queen's Road Central, Sheung Wan, Hong Kong | | | No commercial value |
| 9. | No. 6 Raffles Boulevard, #02-142 Marina Square, Singapore 039594 | | | No commercial value |
| 10. | Unit No. 16-03 on 16th Floor, The Exchange, No. 20 Cecil Street, Singapore 049705 | | | No commercial value |
| 11. | The Hall, Level One, No. 1A Jianguomenwai Avenue, Chaoyang District, Beijing, PRC | | | No commercial value |
| 12. | Five buildings and other ancillary structures, Beijing Worsted Mills, Maofang Road, Qinghe, Beijing, PRC | | | No commercial value |

## VALUATION CERTIFICATE

### Group I – Property interests held for occupation, investment or sale in Hong Kong

| | Property | Description and tenure | Occupancy and tenancy | Capital value as at 31st October, 2000 in the existing state |
|---|---|---|---|---|
| 1. | Units 1,2, 3 and 7 on 1st floor, Unit 3 on 11th floor, Unit 3 on 13th floor, Units 1 and 3 on 15th floor, Units 1 and 4 on 17th floor, Units 1, 2 and 3 on 18th floor, Units 3 and 5 on 19th floor, Unit 1 on 20th floor, Units 1, 3 and 4 on 21st floor, Car parking spaces G1, G2, G3, G4, G5, G6, G7, G8, G12, G13, G14, G16, G17, G18, G19, G20, G21, G22, G23, G24, G25, G27, G29 and Container on ground floor, and Car parking spaces UG4, UG6, UG8, UG10, UG11, UG12, UG13, UG16, UG19, UG20, UG21, UG24 and UG28 on upper ground floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong<br><br>530/3223th equal and undivided shares of and in Lot No. 730 in Demarcation District No. 450 | The property is located within an established light-industrial area predominated by high-rise flatted factory buildings. Hong Kong Worsted Mills Industrial Building is a 26-storey flatted-factory building of reinforced concrete construction completed in 1983.<br><br>The property comprises 19 factory units of various sizes, 13 private car parking spaces, 23 lorry parking spaces and 1 container parking space in the building. The total gross floor area of the factory units is 88,182 sq.m..<br><br>The property interests are held from the Government for a term which was renewed by Ordinance until 30th June, 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property. | Four factory units are vacant and the remaining units are mostly let to various tenants for short terms expiring before 31st December, 2002 at a total rent of HK$291,309.40 per month. According to the tenancy agreements, the leased units should be used for industrial, godown and ancillary office purposes. The car parking spaces are operated on an hourly and a monthly basis. | HK$49,100,000<br><br>100.0% interest attributable to the Group: HK$49,100,000 |

*Notes:*

1. The registered owner of the property is Beijing Development Properties (Hong Kong) Limited which, as we are advised, is 100% directly owned by the Company.

2. The property interests are subject to a charge to secure banking facilities and a Rent Assignment, both in favour of The Kwangtung Provincial Bank Hong Kong Branch.

3. The property is located within an area zoned “Industrial” on the current Kwai Chung Outline Zoning Plan.

| | Property | Description and tenure | Occupancy and tenancy | Capital value as at 31st October, 2000 in the existing state |
|---|---|---|---|---|
| 2. | 3rd, 4th and 5th floors, Peninsula Factory Building, 250/254 Texaco Road, Tsuen Wan, New Territories, Hong Kong<br><br>3/7th equal and undivided shares of and in Section A of Lot No. 284 in Demarcation District No. 446 | The property is located within an established light industrial area where developments are mostly in the form of medium to high-rise flatted factory buildings of various ages.<br><br>The property comprises three consecutive floors of a 7-storey industrial building occupying a site area of 1,969.90 sq.m.. The building is 30 to 40 years old.<br><br>The total gross floor area of the property is 5,003.07 sq.m..<br><br>The property interests are held from the Government for a term renewed by Ordinance until 30th June, 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property. | A space of approximately 30 sq.m. on 3rd floor is used by Sino Textile Enterprise Limited as an office/warehouse and the remaining part of 3rd floor is owner-occupied for storage purposes. 4th and 5th floors are vacant. | HK$13,500,000<br><br>100.0% interest attributable to the Group: HK$13,500,000 |

*Notes:*

1. The registered owner of the property is Beijing Development (Hong Kong) Limited.

2. The property is located within an area zoned "Industrial" on the current Tsuen Wan Outline Zoning Plan.

3. In valuing the property, we have disregarded the long-term redevelopment potential of the site, which, upon materialisation, may result in an increase in value of the property which comprises a significant, undivided shares of the land.

## Group II – Property interest held for occupation in Singapore

| | Property | Description and tenure | Occupancy and tenancy | Capital value as at 31st October, 2000 in the existing state |
|---|---|---|---|---|
| 3. | No. 190 Clemenceau Avenue, #01-01 to 10, Singapore Shopping Centre, Singapore 239924<br><br>Strate Lot U346A of Town Subdivision 20 | The property is located within an office/shopping area which is within close proximity to Orchard Road shopping boulevard. Singapore Shopping Centre is a 6-storey shopping centre with vertical circulation by means of escalators and lifts. Basement car parking facilities are provided. The reinforced concrete building is about 22 years old.<br><br>The property comprises a ground floor unit with double frontage onto Penang Road and Penang Lane. The gross floor area of the property is 350 sq.m. and its strata area is 329 sq.m..<br><br>The property interest is leasehold for a term of 99 years from 1st May, 1948. | The property is occupied for the purposes of a Chinese restaurant. The restaurant is operated by the Group and a monthly rent of S$20,000 is payable to the owner of the property. | HK$13,000,000<br><br>90.0% interest attributable to the Group: HK$11,700,000 |

*Note:*

1. The registered owner of the property is Beijing Singapore Investments Pte Ltd. which is 90% directly owned by the Company.

2. The property is mortgaged to Bank of China, Singapore Branch.

3. The site is zoned “Commercial” under the Singapore Master Plan 1998.

## Group III – Property interests held for investment in PRC

| | Property | Description and tenure | Occupancy and tenancy | Capital value as at 31st October, 2000 in the existing state |
|---|---|---|---|---|
| 4. | Part of 2nd floor and the whole of 3rd floor, A No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC | The property is located in a business district and comprises office accommodation in a commercial development which consists of 6 storeys of office/commercial spaces and 2 basements for carparking, vault, storage and building services.<br><br>The total gross floor area of the property is 2,752.10 sq.m..<br><br>Land use right in respect of the property is held for a term of 50 years from 15th December, 1993 at a nominal annual land use fee. | The premises have been divided into thirteen units, two on the 2nd floor and eleven on the 3rd floor. At present, two units are vacant and the remaining units are let for one or two year terms with the latest expiry date on 10th November, 2003. The tenancy of Unit No. 4 expired in August 2000 and Units Nos. 3 and 7 are let to related parties, so that the terms of these tenancies are under negotiation. Excluding these units, the total rent receivable is RMB195,434 plus US$750 per month. | HK$37,200,000<br><br>85.5% interest attributable to the Group: HK$31,806,000 |

*Notes:*

1. A co-operating joint venture agreement was entered into on 11th November, 1993 between Beijing Jing Hua Trust and Investment Corporation (北京京華信托投資公司) ("Beijing Jing Hua") and Royder Investments Limited ("RIL") to establish a joint venture company called Beijing Development Property Investment and Management Company Limited (the "JV Company") and owned as to 95% by RIL and as to 5% by Beijing Jing Hua. Pursuant to this agreement, Beijing Jing Hua has agreed to transfer to the JV Company the legal title and accompanying land use right in respect of the property to the JV Company. The joint venture is for an initial term of 20 years. The JV Company's net profits (after recoupment by RIL of the principal of, and interest on, the capital contributed by RIL and employed for acquiring the land use right and realty title of the property) distributed as to 95% to RIL and 5% to Beijing Jing Hua.

2. A certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and Overseas Chinese dated 13th December, 1993 was issued in respect of the JV Company.

3. A business licence dated 15th December, 1993 was issued in respect of the JV Company for a term of 20 years from 15th December, 1993 to 14th December, 2013.

4. A state-land use certificate dated 15th December, 1993 was issued. Land use right is granted to the JV Company for office purposes for a term of 50 years.

5. A realty title certificate dated 15th December, 1993 was issued. The title is vested in the JV Company.

6. The property interest is subject to a mortgage to secure a loan to Beijing Singapore Investments Pte Ltd. which, as we are advised, owns 100% of RIL, the mortgagee being The Agricultural Bank of China, Singapore Branch.

7. The significant points of the Legal Opinion are summarised as follows:

   (i) the JV Company has been duly formed and is validly existing under the laws of PRC;

   (ii) RIL's interest in the joint venture is protected under the laws of PRC based on the validly approved joint venture contract and memorandum of association;

   (iii) the JV Company has obtained the realty title of the property and the land use right relating to a share of the site area, and has the right to use, lease, transfer or mortgage the property interest.

8. We are advised that RIL is 90% indirectly owned by the Company so that the Group has a 85.5% attributable interest in the property interest.

| | Property | Description and tenure | Occupancy and tenancy | Capital value as at 31st October, 2000 in the existing state |
|---|---|---|---|---|
| 5. | Shanghai Harbour Business Center, No. 610 Dongdaming Road, Hongkou, Shanghai, PRC | The property is located on the edge of a sea-cargo handling area by the river bank, and within a dominantly residential area with shops and a few modern office buildings.<br><br>Shanghai Harbour Business Center comprises a free-standing, renovated, 7-storey office building with show- room and other ancillary facilities on the ground floor. The reinforced concrete building is over 40 years old and was refurbished in 1994.<br><br>The total gross floor area of the property is 10,138.50 sq.m. excluding a portion of the top floor reserved by the owner.<br><br>The property interest is leasehold for the joint venture term, 20 years from 17th September 1993, which term (subject to the approval of the original examination and approval authority) may be extended for further 10 years. The annual rent fixed for the residue of the term is US$350,000 plus RMB3,160,000, but has been decreased to a lump sum of RMB2,500,000 on a concession basis. | The property is about 85% sub-let for office purposes to various sub-tenants mostly for short terms of one year. The total rent is RMB182,112 plus US$35,332 per month. | HK$20,700,000<br><br>49.5% interest attributable to the Group: HK$10,246,500 |

*Notes:*

1. A co-operating joint venture contract was entered into on 18th August, 1993 between 上海高陽港務公司 (the Building Owner), 上海虹口區外商投資服務中心 (the “Chinese Party”) and Overseas Union Investments Ltd. (“OUIL”) to establish a joint venture company called Shanghai Hai Gang Business Center Co., Ltd. (上海海港商務中心有限公司) (the “JV Company”). Pursuant to the joint venture contract, the Building Owner has leased the building (excluding Level 1 and the reserved area on the top floor), and contributed Level 1 of the building, to the JV Company. The registered capital of the JV Company is US$2,100,000 which was contributed as to 99% by OUIL and as to 1% by the Chinese Party. The joint venture is for an initial term of 20 years from 17th September, 1993 (subject to the approval of the original examination and approval authority) extendable for a further 10 years. The JV Company’s net profits (after a fixed payment of RMB80,000 per annum to the Chinese Party) is distributed as to 10% to the Building Owner and 90% to OUIL.

2. Should any one of the parties to the joint venture be desirous of transferring its shareholding in the JV Company wholly or partly, the other parties' consent is required and the other parties have a first right of refusal.

3. A certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and Overseas Chinese dated 3rd September, 1993 was issued in respect of the JV Company.

4. A business licence dated 17th September, 1993 was issued in respect of the JV Company.

5. The significant points of the Legal Opinion are summarised as follows:

   (i) the JV Company has been duly formed and is validly existing under the laws of PRC;

   (ii) OUIL's interest in the joint venture is protected under the laws of PRC based on the validly approved joint venture contract and memorandum of association;

   (iii) the JV Company has obtained lawfully the rights to use and operate the property.

6. We are advised that OUIL is 50% indirectly owned by the Company so that the Group has a 49.5% attributable interest in the property interest.

7. Our valuation represents the capitalised value of the profit rents to be received by the JV Company over the residue of the lease period. In our valuation, we have relied on the PRC Legal Opinion and assumed that:

   (i) the Group owns a leasehold interest in the property;

   (ii) the Group holds the rights to sublet the property and receive any profit rents, which rights are transferrable to third parties by way of transferring its shareholding in the JV Company (subject to Note 2).

## Group IV – Property interest held for development in PRC

| | Property | Description and tenure | Occupancy and tenancy | Capital value as at 31st October, 2000 in the existing state |
|---|---|---|---|---|
| 6. | Phases II and III, No. 8 Dongdaqiao Road, Chaoyang District, Beijing, PRC | The property is located within a mixed residential and commercial area within close proximity to the established business areas along East Third Ring Road and Jianguomenwai Avenue.<br><br>The property comprises two of the three lots constituting a development site with a total area of 32,785 sq.m.. The two subject lots have the following areas:<br><br>Lot 2A: 9,700 sq.m.<br>Lot 2B: 12,885 sq.m.<br>Total 22,585 sq.m.<br><br>Excluded from the valuation is Lot 1 which hosts Phase I with a site area of 10,200 sq.m.. Construction work for a block of furnished apartment-cum-office suites on Lot 1 was completed to the ground level.<br><br>Lot 2A has a direct frontage onto Dongdaqiao Road while new roads have been planned to separate the three lots.<br><br>Land use rights of the whole site has been transferred from Beijing Real Estate Administration Bureau to Beijing Jianhua Real Estate Co., Ltd. which has obtained a land use certificate in respect of Lot 1 for terms of 40 years (for commercial use), 50 years (for office use) and 70 years (for apartment use) from 19th October 1994. | Lot 2A and Lot 2B are occupied by some older factory and ancillary buildings which are predominantly vacant. | HK$534,900,000<br><br>50.0% interest attributable to the Group: HK$267,450,000 |

*Notes:*

1. A co-operating joint venture contract was entered into in February 1994 between 北京市市政工程機械公司 ("Party A"), 北京源基房地產開發公司 ("Party B") and Linkcross Investments Limited ("LIL") to establish a joint venture company called Beijing Jianhua Realestate Co., Ltd. (the "JV Company"). Pursuant to the joint venture contract, Party A has agreed to make arrangements for demolition and resettlement of the occupiers of the whole site and Party B and LIL have agreed to contribute the capital for the operations of the JV Company. The registered capital of the JV Company is US$12,000,000 which shall be contributed as to 25% by Party B and as to 75% by LIL. The joint venture is for 50 years extendable upon approval of the board of directors and of the original approving authority. 25% and 75% of the JV Company's profits and losses shall be distributed to Party B and LIL respectively.

2. A State-owned land use right grant contract dated 28th September, 1994 was entered into between Beijing Real Estate Administration Bureau and the JV Company in relation to the whole site, i.e. Phases I, II and III.

3. Pursuant to a change of name of Party B into 北京市利達匯通房地產開發公司 and a shareholding acquisition contract dated 30th April, 1999 between Party B and 天津開發區環海房地產開發有限公司 ("New Party B"), a new joint venture contract was entered into on 30th April, 1999 between Party A, New Party B and LIL. In consideration of an amount of RMB218,000,000 to be paid by New Party B to LIL, New Party B shall be solely and exclusively entitled to the 100% interest in Phase I of the joint venture representing its 25% share of profit in the entire joint venture and LIL shall be solely and exclusively entitled to the 100% interest in Phases II and III of the joint venture representing its 75% share of profit in the joint venture.

4. Certificates of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and Overseas Chinese were issued on 18th February, 1994 and 24th June, 1999 in respect of the JV Company.

5. Business licences dated 22nd February, 1994 and 6th September, 1999 were issued in respect of the JV Company.

6. We are advised that LIL is 50% directly owned by the Company so that subject to point 3 above, the Group has a 50% attributable interest in the property interest.

7. The significant points of the Legal Opinion are summarised as follows:

   (i) the JV Company has been duly formed and validly existing under the laws of PRC;

   (ii) LIL's interest in the joint venture is protected under the laws of PRC based on the validly approved joint venture contract and memorandum of association;

   (iii) due to an outstanding contribution of registered capital in the sum of US$1,000,000 to be made on the part of LIL, the business licence of the JV Company may be invalidated by the relevant Government authority which, however, has not issued a one-month demand notice of the outstanding amount or any other notices to the JV Company in this respect. This being the case and as the annual checking for the JV Company has been approved since its establishment, the JV Company remains a validly existing entity;

   (iv) the JV Company has, under the PRC laws, been properly granted the whole site for Phases I, II and III, and obtained the development right in respect of commercial, office and apartment properties. The JV Company has paid a part of the land premium and infrastructure construction fee and obtained a land use certificate in respect of Phase I. When the JV Company pays the outstanding land premium and infrastructure construction fee (in a total sum of RMB135,540,000), it will obtain the land use certificates in respect of Phases II and III.

8. In our valuation, we have relied on the PRC Legal Opinion and assumed that:

   (i) the Group had settled in full the outstanding land premium and infrastructure construction fee and the outstanding demolition and resettlement compensation;

   (ii) a proper title to the property was vested in the Group.

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide information to Shareholders regarding the new repurchase mandate as referred to in the section headed "General mandates to issue and to repurchase Shares" on page 27 of this circular. For the purpose of this appendix, the term "shares" (unless otherwise stated) shall be as defined in the Hong Kong code on share repurchases which mean all classes which carry a right to subscribe for or purchase shares.

## SHARE REPURCHASES PROPOSAL

Ordinary resolution number 9 relates to the granting of a general mandate to the Directors to repurchase on the Stock Exchange shares in the Company representing up to a maximum of 10% of the issued and fully paid up share capital of the Company as at the date of the resolution granting the general mandate.

As at the Latest Practicable Date, 85,758,750 Shares were in issue. The Company will issue the New Shares upon completion of the Subscriptions, if the ordinary resolutions numbered 1 to 5 set out in the notice convening the EGM become unconditional and effective. As a result, there will be 303,758,750 Shares in issue and exercise in full of the share repurchase mandate would result in up to a maximum of 30,375,875 Shares being repurchased by the Company.

Although the Company has no present intention of repurchasing any Shares, it believes that the flexibility afforded by the share repurchase mandate would be beneficial to the Company and its shareholders. Trading conditions on the Stock Exchange have sometimes been volatile in recent years. At any time in the future when Shares are trading at a discount to their underlying value, the ability of the Company to repurchase Shares will be beneficial to those Shareholders who retain their investment in the Company since their percentage interest in the assets of the Company would increase in proportion to the number of Shares repurchased by the Company. Furthermore, the exercise of the share repurchase mandate by the Directors may lead to an increased volume of trading and therefore enhanced liquidity in the Shares on the Stock Exchange.

## SOURCE OF FUNDS

The Directors propose that the proposed share repurchases would be financed from the Company's internal resources or existing banking facilities, which shall be funds legally available for such purpose in accordance with the Company's memorandum and articles of association and the laws of Hong Kong.

The Directors do not expect there to be any material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the Company's audited financial statements for the year ended 31st December, 1999) in the event that the proposed share repurchases are to be carried out in full at any time during the proposed period. However, the Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, has a material adverse impact on the working capital or gearing position of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

**DISCLOSURE OF INTEREST**

None of the Directors nor to the best of the knowledge of the Directors, having made all reasonable enquiries, any associates of the Directors has a present intention, in the event that the proposed share repurchases is approved by the Shareholders, to sell Shares to the Company.

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchases pursuant to the proposed resolution and in accordance with the Listing Rules and the laws of Hong Kong.

As at the Subscription Completion, the controlling shareholder of the Company, IFTL, will own 168,000,000 Shares, representing approximately 55.31% of the then issued share capital of the Company. Its shareholding percentage will be increased to 65.31% in the event that the proposed share repurchases are to be carried out in full at any time during the proposed period. The Directors are not aware of any consequence which may arise under the Takeovers Code as a result of any repurchases made under the proposed share repurchases. The Directors also do not propose to exercise the general mandate to such extent as would, in any circumstances, which may reduce the public shareholding to less than 25% of the Shares then in issue.

The Company has not purchased any of its Shares during the previous six months, whether on the Stock Exchange or otherwise.

The Company has not been notified by any connected persons of the Company that they have a present intention to sell Shares to the Company or have undertaken not to sell any of the Shares held by them to the Company, in the event that the Company is authorised to make purchases of its shares.

The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous twelve months were:

| | **Highest** | **Lowest** |
|---|---|---|
| | *HK$* | *HK$* |
| **2000** | | |
| January | 1.13 | 0.92 |
| February | 1.52 | 1.10 |
| March | 1.13 | 1.02 |
| April | 0.96 | 0.88 |
| May | 1.03 | 0.88 |
| June | 1.42 | 0.90 |
| July | 1.25 | 1.10 |
| August | 1.14 | 0.98 |
| September | 1.03 | 0.89 |
| October | 0.88 | 0.88 |
| November | 1.02 | 0.88 |
| December | 1.52 | 0.90 |
| **2001** | | |
| January | 1.54 | 1.25 |

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular other than those relating to BEHL or the BEHL Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular other than those relating to BEHL or the BEHL Group have been arrived at after due and careful consideration and there are no other facts other than those relating to BEHL or the BEHL Group not contained in this circular, the omission of which would make any statement other than those relating to BEHL or the BEHL Group contained herein misleading.

The directors of BEHL jointly and severally accept full responsibility for the accuracy of the information contained in this circular other than those relating to the Company, the Group, HWL, IHL, GMG, GDL or INC Funds and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts other than those relating to the Company, the Group, HWL, IHL, GMG, GDL or INC Funds not contained in this circular the omission of which would make any statement contained herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company's subsidiaries, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

(a) Sunbird beneficially owns 2,400 ordinary shares of HK$1 each in the share capital of H.K. Forewell Investments Limited, representing 24% of its issued share capital.

(b) Sunbird beneficially owns 2,400 ordinary shares of HK$1 each in the share capital of Hong Kong Fortune International Limited, representing 24% of its issued share capital.

(c) Sunbird beneficially owns 6,000 ordinary shares of S$1 each in the share capital of Ah Yat Abalone Forum Restaurant Holdings Pte Ltd, representing 24% of its issued share capital.

Mr. Ng Kwong Fung and Mr. Ng Kong Fat, Brian, both of whom are Directors, own 75% and 25% of the issued share capital of Sunbird respectively.

In addition to the above, a Director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had interests in any equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which he was taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interests in the securities of IFTL.

Except for the Disposals, none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group since 31st December, 1999, being the date to which the latest published audited accounts of the Group were made up, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Except for the BEHL Subscription Agreement and the Disposal Agreements, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant to the business of the Group.

None of the Directors has any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

There is no service contract with the Company or any of its subsidiaries or associated companies in force for the Directors which have more than twelve months to run, or which has been entered into or amended within six months before the date of the Announcement.

**(b) The Company and subsidiaries**

None of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company had any interests in the securities of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Company or any of its subsidiaries had any interest in the securities of IFTL.

### (c) Directors of IFTL

The directors of IFTL did not have any interest in the securities of the Company as at the Latest Practicable Date.

### (d) IFTL

None of IFTL or its concert parties, if any, had any interest in the securities of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, no person including IFTL and its concert parties, if any, had any arrangement of the kind referred to in note 8 to Rule 22 of the Takeovers Code with the Company, or with any concert parties of the Company.

As at the Latest Practicable Date, there was no agreement or arrangement between any of IFTL, BEHL, the Directors and any other person which is conditional on the outcome of or otherwise connected with the BEHL Subscription and/or the Whitewash Waiver.

As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on the outcome of or otherwise connected with the BEHL Subscription and/or the Whitewash Waiver.

### (e) Others

As at the Latest Practicable Date, none of BNP Paribas Peregrine, Ernst & Young, Asia Financial, Horwath Capital or CB Richard Ellis had any interests in the securities of the Company or any shareholding in any member of the Group or had the right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of BNP Paribas Peregrine, Ernst & Young, Asia Financial, Horwath Capital or CB Richard Ellis has any interest, either directly or indirectly, in the promotion of or in any assets of the Group which have been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31st December, 1999, being the date to which the latest published audited accounts of the Group were made up as at the Latest Practicable Date.

## 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

| Name | Number of shares held | Interest |
|---|---|---|
| IHL | 58,618,368 | 68.35% |

IHL is indirectly owned as to 70% by BITIC.

BITIC was founded in 1984 and is a state-owned non-bank financial institution of the Beijing Municipal Government. BITIC has a diversified portfolio of investments in businesses whose activities encompass electronics, chemicals, building materials, property developments, motor manufacturing and tourism. In addition, BITIC arranges and provides finance for a range of projects, and provides lease financing, factoring, guarantees and financial consultancy services.

Save as disclosed above, the Directors or chief executive of the Company is not aware of any person who, directly or indirectly, had an interest representing 10% or more in the issued share capital of any member of the Group as at the Latest Practicable Date.

## 4. DEALINGS IN SECURITIES

### (a) The Company and the Directors

None of the Directors or their respective concert parties had dealt in any securities of the Company during the period between 18th July, 2000, being 6 months prior to the date of the Announcement, and the Latest Practicable Date.

None of the Company, the Directors or their respective associates had dealt in any securities of IFTL during the period between 18th July, 2000, being 6 months prior to the date of the Announcement, and the Latest Practicable Date.

### (b) IFTL

None of IFTL, the directors of IFTL or their respective concert parties, if any, had dealt in any securities of the Company during the period between 18th July, 2000, being 6 months prior to the date of the Announcement, and the Latest Practicable Date.

## 5. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) 17th January, 2001, being the day on which trading in the Shares was suspended pending the issue of the Announcement; and (iii) the Latest Practicable Date.

| | **Closing price of the Shares on the last trading day of each of the six months immediately preceding the date of the Announcement** *HK$* |
|---|---|
| **2000** | |
| July | 1.10 |
| August | 1.07 |
| September | 0.89 |
| October | 0.88 |
| November | 0.89 |
| December | 1.47 |
| **2001** | |
| 17th January | 1.50 |
| Latest Practicable Date | 1.30 |

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period between 18th July, 2000, being the date six months prior to the date of the Announcement, and ending on the Latest Practicable Date were HK$1.53 on 3rd January, 2001 and HK$0.88 on 28th November, 2000 respectively.

## 6. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

| Name | Qualification |
|---|---|
| BNP Paribas Peregrine | Registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| Ernst & Young | Certified Public Accountants, Hong Kong |
| Asia Financial | Registered investment adviser and dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| Horwath Capital | Registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| CB Richard Ellis | Professional property valuer |

## 7. CONSENTS

BNP Paribas Peregrine, Ernst & Young, Asia Financial, Horwath Capital and CB Richard Ellis have given and have not withdrawn their respective written consents to the issue of this circular, with the inclusion herein of their letters and references to their names, in the form and context in which they respectively appear.

## 8. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

## 9. MATERIAL CONTRACTS

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

(a) the BEHL Subscription Agreement;

(b) the GDL Subscription Agreement;

(c) the INC Funds Subscription Agreement;

(d) the Placing Agreement;

(e) the HK Disposal Agreement; and

(f) the JV Disposal Agreement.

## 10. GENERAL

(a) The respective addresses and the names of the directors of IFTL and BEHL and the persons acting in concert with any of them, if any, as at the Latest Practicable Date are set out below:

*IFTL*

The registered office of IFTL is at TrustNet (British Virgin Islands) Limited, TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The directors of IFTL are Xiong Da Xin and Hu Zhao Guang.

*BEHL*

The registered office of BEHL is at 34th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The directors of BEHL are as follows:

The executive directors:

Hu Zhao Guang, Yi Xi Qun, Xiong Da Xin, Bai Jin Rong, Liu Kai, Xing Chun Hua, Zheng Wan He, Wei En Hong, Li Fu Cheng, Bi Yu Xi, Qiao Yu and Li Zhong Gen;

The non-executive directors:

Lau Hon Chuen, Ambrose, Lee Tung Hai, Leo, Wang Xian Zhang and Fang Fang.

No agreement has been entered into with any other persons for the transfer of the 168,000,000 New Shares to be allotted and issued to IFTL upon completion of the BEHL Subscription.

(b) The registered office of the Company is situated at 20th Floor, Hang Lung House, 184-192 Queen's Road Central, Sheung Wan, Hong Kong.

(c) The share registrar of the Company is Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

(d) The secretary of the Company is Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company in Hong Kong at 20th Floor, Hang Lung House, 184-192 Queen's Road Central, Sheung Wan, Hong Kong from the date of this circular up to and including 16th March, 2001:

(a) the memorandum of association and articles of association of the Company;

(b) the letter from the Independent Financial Advisers, the text of which is set out on pages 40 to 57 of this circular;

(c) the comfort letter from BNP Paribas Peregrine regarding the unaudited consolidated results of the Company and its subsidiaries, the text of which is set out in Appendix II;

(d) the comfort letter from Ernst & Young regarding the unaudited consolidated results of the Company and its subsidiaries, the text of which is set out in Appendix II;

(e) the letter and valuation certificate issued by CB Richard Ellis regarding the Group's property interests, the texts of which are set out in Appendix III;

(f) the annual reports of the Company for the two financial years ended 31st December, 1999;

(g) the interim report of the Company for the six months ended 30th June, 2000;

(h) the material contracts referred to under the section headed "Material contracts" in this appendix; and

(i) the written consents referred to under the section headed "Consents" in this appendix.

# BEIJING DEVELOPMENT (HONG KONG) LIMITED
# 北京發展（香港）有限公司

*(Incorporated in Hong Kong with limited liability)*

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of Beijing Development (Hong Kong) Limited (the "Company") will be held at 10:30 a.m. on Friday, 16th March, 2001, at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong for the purposes of considering and if thought fit, passing the following resolutions as ordinary resolutions:

## ORDINARY RESOLUTIONS

1. "**THAT** the authorised share capital of the Company as at the date of this meeting of HK$160,000,000 divided into 160,000,000 ordinary shares of HK$1.00 each (the "Shares") be and is hereby increased to HK$1,000,000,000 divided into 1,000,000,000 Shares by the creation of an additional 840,000,000 Shares."

2. "**THAT** subject to the passing of ordinary resolution numbered 1 set out in the notice of the extraordinary general meeting of the Company dated 23rd February, 2001 (the "Notice"), of which this resolution forms part, the allotment and issue by the Company of 168,000,000 new Shares (the "BEHL Shares") to Idata Finance Trading Limited ("IFTL") pursuant to the terms of the subscription agreement dated 18th January, 2001 entered into between the Company, IFTL and Illumination Holdings Limited ("IHL") (the "BEHL Subscription Agreement") be and is hereby approved."

3. "**THAT** subject to the passing of ordinary resolution numbered 1 set out in the Notice, of which this resolution forms part, the allotment and issue by the Company of 10,000,000 new Shares (the "GDL Shares") to Gateway Direct Limited ("GDL") pursuant to the terms of the subscription agreement dated 18th January, 2001 entered into between the Company and GDL be and is hereby approved."

4. "**THAT** subject to the passing of ordinary resolution numbered 1 set out in the Notice, of which this resolution forms part, the allotment and issue by the Company of 10,000,000 new Shares (the "INC Funds Shares") to International Network Capital LDC ("INC Funds") pursuant to the terms of the subscription agreement dated 18th January, 2001 entered into between the Company and INC Funds be and is hereby approved."

5. "**THAT** subject to the passing of ordinary resolution numbered 1 set out in the Notice, of which this resolution forms part, the allotment and issue by the Company of 30,000,000 new Shares (the "Placing Shares") pursuant to the terms of the placing agreement dated 18th January, 2001 entered into between the Company and Shenyin Wanguo Securities (H.K.) Ltd. be and is hereby approved."

6. "**THAT** subject to the passing of ordinary resolutions numbered 1 and 2 set out in the Notice, of which this resolution forms part, the waiver granted or to be granted pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission to IFTL and any party acting in concert with it from their obligation to make a mandatory offer for all the issued Shares not already owned by IFTL and any person acting in concert with it under Rule 26 of the Hong Kong Code on Takeovers and Mergers which would otherwise arise as a result of the completion of the BEHL Subscription Agreement be and is hereby approved."

7. "**THAT** the Disposal Agreements as described in the section headed "The Disposal Agreements" under the Letter from the Board set out in the circular of the Company dated 23rd February, 2001, including the transactions contemplated thereunder, be and are hereby approved and the directors of the Company (the "Directors") be and are hereby authorised to do all such further acts and things and execute all such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Disposal Agreements."

8. "**THAT:**

   (a) subject to:

      (i) the passing of ordinary resolutions numbered 1 to 6 set out in the Notice, of which this resolution forms part; and

      (ii) paragraphs (b) and (c) of this resolution,

   the Directors be and are hereby granted an unconditional general mandate to allot, issue and deal with additional Shares and to allot, issue or grant securities convertible into such Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements and options in respect thereof;

   (b) such mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) above, otherwise than pursuant to:

      (i) a rights issue;

(ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into Shares;

(iii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following the allotment and issue of the BEHL Shares, the GDL Shares, the INC Funds Shares and the Placing Shares (all as referred to in ordinary resolutions numbered 2 to 5 set out in the Notice, of which this resolution forms part);

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"rights issue" means an offer of shares open for a period fixed by the Directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company); and

(e) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with additional Shares and other securities of the Company pursuant to the ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 27th June, 2000 be and is hereby revoked."

9. "**THAT:**

(a) subject to:

(i) the passing of ordinary resolutions numbered 1 to 6 set out in the Notice, of which this resolution forms part; and

(ii) paragraph (b) of this resolution,

the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, Shares and that the exercise by the Directors of all powers of the Company during the Relevant Period to repurchase Shares, subject to and in accordance with all applicable laws and the requirements of The Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the allotment and issue of the BEHL Shares, the GDL Shares, the INC Funds Shares and the Placing Shares (all as referred to in ordinary resolutions numbered 2 to 5 set out in the Notice, of which this resolution forms part);

(c) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

(d) the general mandate granted to the Directors to exercise the powers of the Company to repurchase Shares pursuant to the ordinary resolution passed by the shareholders at the annual general meeting held on 27th June, 2000 be and is hereby revoked."

10. "**THAT** subject to the passing of ordinary resolutions numbered 8 and 9 set out in the Notice, of which this resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the mandate granted under ordinary resolution numbered 8 set out in the Notice, of which this resolution forms part, be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the Shares which may be repurchased by the Company pursuant to and in accordance with the mandate granted under ordinary resolution numbered 9 set out in the Notice, of which this resolution forms part, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the allotment and issue of the BEHL Shares, the GDL Shares, the INC Funds Shares and the Placing Shares (all as referred to in ordinary resolutions numbered 2 to 5 set out in the Notice, of which this resolution forms part).

By Order of the Board
**Wong Kwok Wai, Robin**
*Company Secretary*

Hong Kong, 23rd February, 2001

*Notes:*

1. A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar at Tengis Limited at 4th Floor Hutchison House, 10 Harcourt Road, Central, Hong Kong, at least 48 hours before the time appointed for holding the extraordinary general meeting or adjourned meeting or poll. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or adjourned meeting or poll should you so wish.

3. Ordinary resolutions numbered 2 to 7 in this notice will be put to a poll.

# BEIJING DEVELOPMENT (HONG KONG) LIMITED
# 北京發展（香港）有限公司

*(Incorporated in Hong Kong with limited liability)*

**Form of proxy for use by shareholders at the extraordinary general meeting to be held on 16th March, 2001**

I/We(1) ................................................................................................................

of ..........................................................................................................................

being the registered holder(s) of(2) ............................................................ ordinary shares of HK$1.00 each in the capital of Beijing Development (Hong Kong) Limited (the "Company"). HEREBY APPOINT the Chairman of the extraordinary general meeting or(3) ...................................... of ................................................ as my/our proxy to attend and act for me/us at the extraordinary general meeting (the "Meeting") of the Company to be held at Taishan Room, Level 5, The Island Shangri-La Hong Kong, Supreme Court Road, Central, Hong Kong on Friday, 16th March, 2001 at 10:30 a.m. (or at any adjournment thereof) for the purposes of considering and, if thought fit, passing the resolutions as set out in the notice convening the Meeting and at such Meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the resolutions as hereunder indicated, or if no such indication is given, as my/our proxy thinks fit:

| Ordinary Resolution | For(4) | Against(4) | Abstain(4) |
|---|---|---|---|
| 1. To approve the increase in the authorised share capital of the Company | | | |
| 2. To approve the allotment and issue of the BEHL Shares(5) | | | |
| 3. To approve the allotment and issue of the GDL Shares(5) | | | |
| 4. To approve the allotment and issue of the INC Funds Shares(5) | | | |
| 5. To approve the allotment and issue of the Placing Shares(5) | | | |
| 6. To approve the Whitewash Waiver(5) | | | |
| 7. To approve the Disposal Agreements(5) | | | |
| 8. To approve a general mandate to be given to the Directors to issue shares | | | |
| 9. To approve a general mandate to be given to the Directors to repurchase shares | | | |
| 10. To extend the general mandate to be given to the Directors to issue shares by including shares which may be repurchased | | | |

Dated this ................ day of ................... 2001 Signature(6) ................................

*Notes:*

(1) Full name(s) and address(es) must be inserted in BLOCK CAPITALS. The name of all joint holders should be stated.

(2) Please insert the number of ordinary shares of the Company registered in your name(s) and to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the ordinary shares of the Company registered in your name(s).

(3) If any proxy other than the Chairman of the Meeting is preferred, strike out the words "the Chairman of the extraordinary general meeting or" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**

(4) **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, TICK THE RELEVANT BOX UNDER THE COLUMN MARKED "FOR". IF YOU WISH TO VOTE AGAINST A RESOLUTION, TICK THE RELEVANT BOX UNDER THE COLUMN MARKED "AGAINST". IF YOU WISH TO ABSTAIN, TICK THE RELEVANT BOX UNDER THE COLUMN MARKED "ABSTAIN".** Failure to tick any one of the boxes will entitle your proxy to cast your vote(s) or abstain at his discretion. Your proxy will also be entitled to vote or abstain at his discretion on any resolution properly put to the Meeting as well as those referred to in the notice convening the Meeting.

(5) These terms are defined in the notice convening the Meeting.

(6) This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either under its common seal or under the hand of any officer or attorney duly authorised.

(7) In the case of joint holders of any ordinary share any one of such joint holders may attend and vote at the Meeting either personally or by proxy in respect of such ordinary share but if more than one of such joint holders are present at the Meeting personally or by proxy, the vote(s) tendered by the senior holder, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which their names stand in the register of members in respect the joint holding.

(8) To be valid, this form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the Company's share registrar, Tengis Limited at 4th Floor Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or the adjourned meeting.

(9) The proxy need not be a member of the Company but must attend the Meeting in person to represent you.

(10) Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting if you so wish. In the event of your attending the Meeting, this form of proxy will be deemed to be revoked.

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